IMITATION IN FOREIGN LOCATION CHOICE: THE ROLE OF UPPER ECHELONS' DIVERSITY

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A thesis
submitted to the Victoria University of Wellington
in fulfilment of the requirements for the degree of
Doctor of Philosophy

Victoria University of Wellington
2019

Abstract

This research investigates how the Top Management Team (TMT) characteristics impact the imitation of home country firms' Foreign Direct Investment (FDI) location choice. A review of the FDI location choice research was performed, and various viewpoints for the selecting locations were identified. Amongst these viewpoints, the institutional perspective suggests that lack of cognition coupled with uncertainty about host markets compels firms to follow the FDI decisions of other home country firms. The review identified that the current literature in the cognitive domain had overlooked the role of TMTs. Upper echelon theory suggests that TMTs are not only a unique source of cognitive resources but also help to overcome challenges associated with internationalisation. This research applies institutional theory and the upper echelon theory to advance the argument of how and why TMT characteristics may impact the imitation of location choice decisions. Various TMT attributes like TMT international experience, TMT international experience diversity, TMT tenure diversity, TMT education diversity and TMT functional diversity were hypothesised to moderate the imitation in FDI location choice.

This research applied quantitative methods to assess the proposed hypotheses. First, a sample of 202 US-based firms (which invested in 11 Asia-Pacific countries from 2009 to 2014) was collected from FDI Markets database. This sample generated a panel dataset of 12,771 observations. Nearly 11,000 unique top manager profiles were created to compute the TMT data for the firms in the given period. Through logistic regression, this study assessed whether TMT attributes moderate the extent of imitation in FDI location choice.

The findings from this research contribute to institutional theory by highlighting the role of upper echelons. In particular, the findings show that while TMT tenure diversity weakens the effect of imitation, TMT functional diversity further exacerbates the effect of imitation in location choice. It was also found that when firms do not have a prior presence in the host country, then TMT international experience also strengthens the effect of prior FDI by other home country firms. The research also supports that the effect of various TMT attributes could be subject to environmental conditions. In particular, it shows that deep-level characteristics cause a more profound impact when host country uncertainty is high, while surface-level characteristics are impactful when host country uncertainty is low.

Acknowledgements

First and foremost, thanks to Allah the Almighty for providing me with the opportunity, and the ability to complete my PhD.

There are so many individuals, I need to thank and appreciate for their support and encouragement during my PhD. Firstly, I want to acknowledge my parents who encouraged and supported me at every possible stage to complete this project. Their blessings and prayers remain my biggest asset so far.

Likewise, I want to express gratitude towards my supervisors, Prof Siah Hwee Ang and Dr Yang Yu, who put their faith in me during this PhD. Throughout my research, their feedback and thoughtful questions were extremely helpful in building my abilities and rigour during this research. I would also like to appreciate the role of my examiners: Dr Revti Raman, Dr Yuanfei Kang and Dr Dimitrios Georgakakis who provided extremely valuable insights which helped improve the thesis report.

I also want to acknowledge the support and help that I received from Dr Naghmeh Kargozar. The fact that she was a few months ahead of me in her doctorate program, was really helpful for me in benchmarking the deliverables for my research. Thanks to her for the lengthy discussions, and strategies to handle data and statistics. I also owe gratitude to Dr Steffen Bertram, who always mentored me and showed me more efficient ways of working and researching. I am also grateful to Zhanna Rodina, with whom my conversations made me reflect on some of the very fundamental elements of my research. I am also grateful to other PhD students, who were with me all along the journey and made the school such a fun place to work. These include Dr Martyn Gosling, Rene Versteegh, Himadree Phookan, Sharmistha Chowdhury, Thu Nguyen, Tega Ogbuigwe, Pablo Gonzalez among others.

I would also like to thank my friends including, Ahmed H. Naseem, Muhammad Idrees, Hassan A. Fakhar, Dr Nabeel Y. Khan, Omer Khan and Dr Adeel Mehmood, without whose support living in New Zealand and completing studies so far from home would have been very difficult.

I was also lucky to receive encouragement and support from all academic staff including Prof Val Hooper, AProf Dan Laufer, Dr Hongzhi Gao, Dr James Richard, Dr Matevz

Raskovic, Dr Micael-Lee Johnstone, Dr Javlon Kadirov and Dr Eldrede Kahiya among others. I would also highly appreciate and acknowledge the help and support from the school staff on all occasions. Thanks to Claire Williams and Helen Hynes for hiring me, when I needed the work. I must also acknowledge the efforts of tutor team, especially Helen Hynes, who not only made tutoring such a fun activity, but also accommodated me at every possible stage. Likewise, I owe a tremendous amount of gratitude towards Mary Alexander who helped and supported all my requests in the best possible manner. I would also acknowledge the efforts of Katrina Walsh, Vineeta Nair, Hannah Donmez and Amy Vautier for their continuous support throughout this journey.

I would also specially want to acknowledge my wife – Sundus, who was not only our chief home maker, but also worked tirelessly to support the family. I will always remain indebted to her. A bundle of thanks to my daughters, Mishall and Hania as well. Not only did they provide me with the joy to appreciate life, but also missed-out on many fun activities on weekends, as I was busy working.

Thank you so much everyone.

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1 INTRODUCTION

To successfully manage international operations in different and unique environments, firms face a plethora of challenges. Uncertainty about the target locations is a prime issue in deciding where to invest. Managers' inability to comprehend the environment of host countries forces them to look for signals from other firms (Henisz & Delios, 2001). The sociological perspective of the institutional theory suggests that when faced with such conditions, following the actions of others provides legitimacy to decision makers (DiMaggio & Powell, 1983). On the other hand, the upper echelon theory asserts that Top Management Teams (TMT) are a unique source of cognitive abilities that help to process the information associated with international expansion (Sambharya, 1996; Tihanyi, Ellstrand, Daily, & Dalton, 2000). In this context, this thesis contributes by examining the role of top managers' international experience and their diversity when choosing a Foreign Direct Investment (FDI) location. Given the paucity of research on the crossroads of FDI and TMT behaviours (Barkema & Shvyrkov, 2007; Clark, Li, & Shepherd, 2018; Kedia & Bigli, 2014), this research explores the same in the context of institutions.

Drawing on the upper echelon theory, the primary contribution of this research is to recognise the influence that upper echelons exert in moderating imitation in FDI. The research suggests that when TMT members are highly experienced or diverse, then their combined wisdom may substitute the need to follow others. The findings indicate that while certain aspects of TMT characteristics help to overcome imitation, others may exacerbate it in the FDI location choice decision. Secondly, the results also indicate that the moderating effects of various TMT attributes are contingent upon uncertainty associated with host countries.

1.1 BACKGROUND OF THE STUDY

A firm's choice to invest in a foreign country is considered a complicated decision. Irrespective of the mode of expansion, when firms expand beyond their national borders, they have to deal with many challenges. The process of deciding to establish a presence in a foreign country involves a company undertaking a careful assessment (Miller, 1993b). Firms understand that to manage activities in foreign countries successfully; they need to develop capabilities to

process new information and manage cross-border operations. The choice of a location for foreign investment has a profound impact, not only on how firms achieve their competitive advantages but also on how they perform in the long run (Pantzalis, 2001; Puig, González-Loureiro, & Ghauri, 2014).

The literature suggests that numerous factors influence the decision to engage in cross-border investments. Amongst the different perspectives, initial explanations of cross-border investments are rooted in the economics and strategy literature. These viewpoints that explain FDI decisions include; the concept of product life cycle (Vernon, 1966), oligopolistic rivalry (Flowers, 1976; Knickerbocker, 1973), internalisation to absorb transaction costs (Buckley & Casson, 1976; Williamson, 1975), and the internationalisation process through the sequential build-up of commitments over time (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). Later, Dunning (1980, 1988) incorporated the idea of location-specific factors and presented the eclectic theory based on ownership, location and internalisation advantages (also known as OLI theory), to explain the flow of FDI to specific locations. Amongst these diverse views, the institutional viewpoint also emerged to recognise the effect of rules, laws, political systems, cultural norms and conventions on the way firms selected their investment locations (Kostova & Zaheer, 1999; Loree & Guisinger, 1995; Xu & Shenkar, 2002).

Institutions – defined as *"rules of the game"* (North, 1990) offer a convincing explanation to predict organisational strategies. The institutional viewpoint is considered unique and powerful in explaining the effect of the state and society. Peng (2006, p. 115) termed the institution-based view as the *third leg* of the *strategic tripod*, as it augments the *resource-based view* and the *industry-based view* in explaining a firm's strategy. International business (IB) scholars have also highlighted the role of various institutional forces that influence the internationalisation decisions of firms. Drawing on a legitimacy-driven philosophy, researchers argue that institutions are instrumental in reducing uncertainty and shaping the investment choices of firms (Globerman & Shapiro, 2002; Loree & Guisinger, 1995). In this context, using the sociological perspective of institutions, IB scholars posit that all three pillars (or types) of institutions (Scott, 1995); regulative, normative and cognitive; exert their influence on a firm's location choice decision (Barkema, John, & Pennings, 1996; Delios & Henisz, 2003; Guillén, 2003).

The regulatory pillar is involved in the setting, monitoring and enforcing of rules and laws. The ability to establish and differentiate the *lawful* from *unlawful* provides formal power and authority to the regulators. Various actors in the environment are considered legitimate if their actions are within the defined rules and regulations; otherwise, they are reprimanded or disciplined. The normative pillar provides prescriptive or obligatory bindings that offer template-like solutions. The *"rules of thumb"* create a shared understanding and meaning for actors (Hoffman, 1999; Scott, 1995). Consequently, actors tend to operate rightfully in the eyes of the normative pillar, as it awards them ethical and moral legitimacy. Lastly, the cognitive pillar helps in shaping the internal representation of the environment, and *mental models* and *frames of reference* are used to create meaning. By associating with known organisational forms, the actors are granted cognitive legitimacy (Bitektine, 2011; Galaskiewicz & Wasserman, 1989; Haunschild, 1993). Research has shown that high institutional pressures force actors' decisions to be increasingly similar or isomorphic (Abrahamson & Rosenkopf, 1993; Ang, Benischke, & Doh, 2015). Corresponding to the three institutional pillars, DiMaggio and Powell (1983) identified three different mechanisms through which institutional isomorphism occurs, i.e. *coercive isomorphism* (regulatory pillar), *normative isomorphism* (normative pillar) and *mimetic isomorphism* (cognitive pillar).

Earlier works on institutions and international investments can be traced back to the influence of political, economic and legal characteristics at the country level (Davidson, 1980; Nigh, 1985; Root & Ahmed, 1978). Lately, IB scholars have extensively used DiMaggio and Powell's (1983) stance of achieving legitimacy through mimetic isomorphism or imitation of other firms' actions to explain cross-border investment decisions (Kim, 2013; Li, Qian, & Yao, 2015). The underlying argument in mimicking isomorphism is that the fear of the unknown, risk of failure and dearth of cognitive abilities cause managers to rely on other firms who are considered more experienced or successful (Haunschild & Miner, 1997; Haveman, 1993). Firms utilise their ability to assimilate the information in their surroundings and use it to make sense of cross-border investment decisions (Cohen & Levinthal, 1990; Guillén, 2003). Researchers posit that apart from mitigating unfamiliarity and information asymmetry, the decision to imitate the actions of others also helps to achieve legitimacy and explain FDI decisions (Henisz & Delios, 2001; Lu, 2002; Zhu, Eden, Miller, Thomas, & Fields, 2012).

By associating with others, who are deemed relevant in the socio-demographic space, firms select a *"reference group"* to follow (Dobrev, 2007). The degree to which firms imitate the reference group depends upon the extent of relatedness to the group (Baum & Ingram, 1998). For this reason, firms from the same business group, industry or home country are considered most relevant. In this context, home country firms provide a strong reference point, since they are assumed to be facing similar institutional challenges in foreign locations. Moreover, by following home country firms, a firm has the potential of finding preferential business partners in host territories (Tan & Meyer, 2011). Irrespective of the motivation, home country referents signal the munificence of location and help to reduce uncertainty in the investment decision. The first hypothesis uses similar arguments to suggest that firms imitate the location choices of other home country referents in order to achieve legitimacy in their FDI location decisions.

An essential assumption in the phenomenon of mimetic isomorphism is the lack of understanding about the *rules of the games* in the environmental context. The lack of cognition acts as the main reason why the actions of others are perceived as appropriate to be followed. In the last two decades, our understanding of mimetic isomorphism in foreign location choice has made substantial progress, and several boundary conditions of the phenomenon have been introduced in the literature. Researchers in this domain have highlighted several factors that influence the extent of imitation, including; the firm's prior experience in the host country (Henisz & Delios, 2001), and its international experience (Kim, 2013). Likewise, many factors associated with the host country including perceived institutional distance (Ang et al., 2015; Jiang, Holburn, & Beamish, 2014) and the presence of other referent firms (Bastos & Greve, 2003; Csaszar & Siggelkow, 2010) also influence the magnitude of imitation. Although these research studies have been immensely useful in explaining mimetic isomorphism, progress in our understanding of how the managerial characteristics influence mimicking in FDI is limited. What has largely been ignored by the FDI location choice researchers is the combined cognitive effect of a firm's top managers, which may influence the extent of institutional pressures as perceived by the firm. Recognising this, the primary goal of this research was to investigate how the mimicking of other home country firms in FDI location choice decisions is influenced by top managers' attributes. It is critical to consider the effect of top managers, as they are not only the face of the firm, but also interact with the market for their firm's success. In order to address this goal, this research investigates how TMTs effect institutional mimicking in foreign

entry. In order to test the role of TMTs, I use various constructs related with team experience and diversity, including TMT international experience, TMT international experience diversity, TMT tenure diversity, TMT educational diversity and TMT functional diversity in this research. In this context, this research is uniquely positioned at the cross-roads of institutional mimicking and upper echelons literature.

The literature recognises that managers can act as *institutional entrepreneurs* or as *change agents*, and hence can initiate divergent strategies (Battilana, Leca, & Boxenbaum, 2009). A group of experienced and diverse managers can generate unique ideas and solutions, and add significantly to the cognitive muscle of the firm (Carpenter & Fredrickson, 2001; Nielsen & Nielsen, 2013). Hence, it is essential to understand the impact of top managers, as they are a vital resource available to the firm, and help to exploit opportunities and develop effective organisational strategies (Ener, 2018; Lin, Shi, Prescott, & Yang, 2018). Based on these insights, the main argument in this thesis is that as the TMT's experience and diversity increase, their cognition and understanding improve and the extent of imitation reduces.

To assess the role of top managers, the literature recognises two principal viewpoints; the upper echelon perspective and more recently, the microfoundations perspective. The upper echelon perspective is based on the seminal work of Hambrick and Mason (1984), who suggested that demographic characteristics of members are a surrogate for the team's cognitive resources and thought patterns. In this context, the attributes of the top team are considered indicative of the information available for problem identification and solution generation (Sambharya, 1996; Wei & Wu, 2013). The microfoundations perspective provides insights into the role of managers and their cognitive abilities, as the force behind organisational strategy (Helfat & Peteraf, 2015; Simon, 1991). It considers that the decisions taken by the firms reflect the capabilities embedded in their employees (Ang, Benischke, & Hooi, 2018; Felin & Foss, 2005; Felin & Hesterly, 2007). While both perspectives are complementary, the upper echelon perspective focusses on the backgrounds, skills and experiences of the top teams and the microfoundations perspective considers an aggregation of individual capabilities. Although individual capabilities (in microfoundations literature) are extremely useful in explaining the micro-macro link (Barney & Felin, 2013), the upper echelon perspective provides a more holistic approach to understanding the influence of the group. Since the emphasis of this

research is to investigate the effect of teams, hence, I utilise the upper echelon theory in explaining hypotheses.

While Hambrick and Mason (1984) suggested that TMT-related demographic characteristics act as a reflection of organisations, work-related attributes are considered a suitable proxy for cognitive resources required in developing organisational strategies. Keeping in view such considerations, I only focus on the work-related attributes of TMT international experience, TMT international experience diversity, TMT tenure diversity, TMT education diversity and TMT functional diversity. In the context of this research, I investigate if the experience and diversity-related attributes diminish or accentuate the effect of imitation in foreign location choice.

Keeping in view, these considerations, the follow up argument in this research builds on the upper echelons perspective and suggests that TMTs with higher international experience weaken the extent of imitation in FDI location choice decisions. The underlying argument behind this is that international experience provides necessary cognitive resources to TMTs to make decisions based on their knowledge, thus reducing the requirement for achieving legitimacy through second-hand learning. Such internationally experienced managers are not only instrumental in overcoming normative and psychic distances (Hutzschenreuter & Horstkotte, 2013; Maitland & Sammartino, 2015b), but their social and political connections are also promising in determining potential partnerships in host countries (Lee & Park, 2008). As internationally experienced teams are considered better equipped for combating challenges abroad, they also feel more confident in their internationalisation decisions (Athanassiou & Nigh, 2002). Consequently, the superior cognitive abilities of internationally experienced teams also reduce their need to rely on others in FDI location decisions.

In addition to examining the relationships between TMT attributes and firm outcomes, the upper echelon perspective also recognises the value in heterogeneity (commonly termed as *diversity*) of various TMT attributes (Jackson, May, & Whitney, 1995; Pelled, 1996). The upper echelon perspective considers that the composition of the group and the variation of TMT attributes is imperative for group processes and organisational decision making. The diverse make-up of the team is, therefore, expected to bring in a variety of perspectives and subsequently alter the cognitive output of the group. The diversity in TMT is likely to be a

source of the breadth of information sources and superior cognitive power, which are highly sought-after capabilities, especially in complex decision-making situations (Carpenter & Fredrickson, 2001). Using such insights from the upper echelon theory, in hypotheses three to six, I hypothesise the moderating impact of TMT international experience diversity, TMT education diversity, TMT tenure diversity and TMT function diversity on imitation in FDI location choice.

Nielsen and Nielsen (2013) suggested that researchers should avoid considering diversity as a generic construct, and hence explore potential costs and benefits of each diversity-related attribute. In order to develop diversity-related hypotheses, I use the notion of *"visibility"* and *"job-relatedness"* of TMT attributes (Harrison, Price, & Bell, 1998; Pelled, 1996). The literature suggests that the extent of TMT's cognitive influence is a function of visibility and job-relatedness of the underlying attribute (Jehn, 1994). The visibility aspect of the TMT attributes could be either *surface-level* (visible/apparent attributes like age, ethnicity or gender etc.) or *deep-level* (value-based like experience, education or commitment etc.), depending upon how easily the attributes are observed by other members (Harrison et al., 1998; Phillips, Northcraft, & Neale, 2006). Similarly, the extent of job-relatedness determines the extent to which the attribute shapes the viewpoints and skills related to the cognitive task at hand (Pelled, 1996). The difference of attributes (based on visibility and job-relatedness) gives rise to the context of two-dimensional conceptualisation of conflict, i.e. substantive and affective conflict (Jackson et al., 1995; Jehn, 1994). *Substantive conflict* (among deep-level attributes) refers to an objective disagreement of work-related ideas but results in better-suited solutions. *Affective conflict* (among surface-level attributes) refers to negative sentiments which reduce the social integration and deteriorate the cognitive performance of the group (Amason, 1996). Building on this notion of conflict and cognition, I hypothesise that diversity in less visible attributes like international experience, education and tenure should weaken the impact of imitation. Whereas, diversity of more visible characteristics like functional background would invite social categorisation and low cognitive performance, and hence should strengthen the impact of imitation in FDI location choice.

While this research is positioned at the crossroads of institutional and upper echelon perspective, it also shows that the effects of TMT diversity are not only asymmetric but are also conditional upon the uncertainty that comes from firm's experience in the host market.

After dividing the sample based on firms' prior presence in the host countries, I was able to condition host country uncertainty into the additional statistical analysis. The results from the additional analysis indicate that when host country uncertainty is high (i.e. lack of experience in the target market), higher levels of cooperation are seen among members and negative effects of socio-emotional behaviours are suppressed. The explanation for this trend is consistent with the way groups behave under stress, as tough times require group members to cooperate more (Lanzetta, 1955). The findings confirm that under uncertain circumstances, members are more receptive, and the negative effects of social categorisation are reduced, TMT members ignore the surface level differences amongst themselves and rely more on deep-level attributes. On the contrary, when uncertainty is low (i.e. when firms have a prior presence in the host market), there is less motivation for members to pay heed to each other's (deeply entrenched) viewpoints, resulting in social categorisation and affective conflict. Thus, when host country uncertainty is low, surface-level attributes become more apparent and suppress the impact of deep-level attributes.

1.2 RESEARCH QUESTIONS AND OBJECTIVES

Building on to the background of this research, it aims to answer the following questions.

1. How would TMT international experience and TMT diversity-related attributes impact the probability of opting for similar FDI location choice decisions to other home country firms?
2. How would TMT international experience and TMT diversity-related attributes impact the probability of opting for similar FDI location choice decisions to other home country firms, when firms have a prior presence in the host country vs when they have no prior presence in the host country?

In order to answer the questions mentioned above, this research focuses on the following objectives.

1. To investigate the effect of prior FDI by home country firms on a firm's entry into a host country.
2. To investigate the moderating effect of TMT international experience, TMT international experience diversity, TMT educational diversity, TMT tenure diversity

and TMT functional diversity on the relationship between prior FDI by home country firms and a firm's entry into a host country.

3. To investigate the moderating effect of TMT diversity-related attributes on the relationship between prior FDI by home country firms and the firm's entry into a host country, when firms have a prior presence in the host country vs when they do not have a prior presence in the host country.

1.3 CONCEPTUAL MODEL

The conceptual model proposed in this research is illustrated in Figure 1.1. The first hypothesis (H1) represents the base hypothesis, where firms imitate other home country firms in their FDI location decisions. Later hypotheses (H2 – H6) postulate the moderating impact of various TMT related variables.

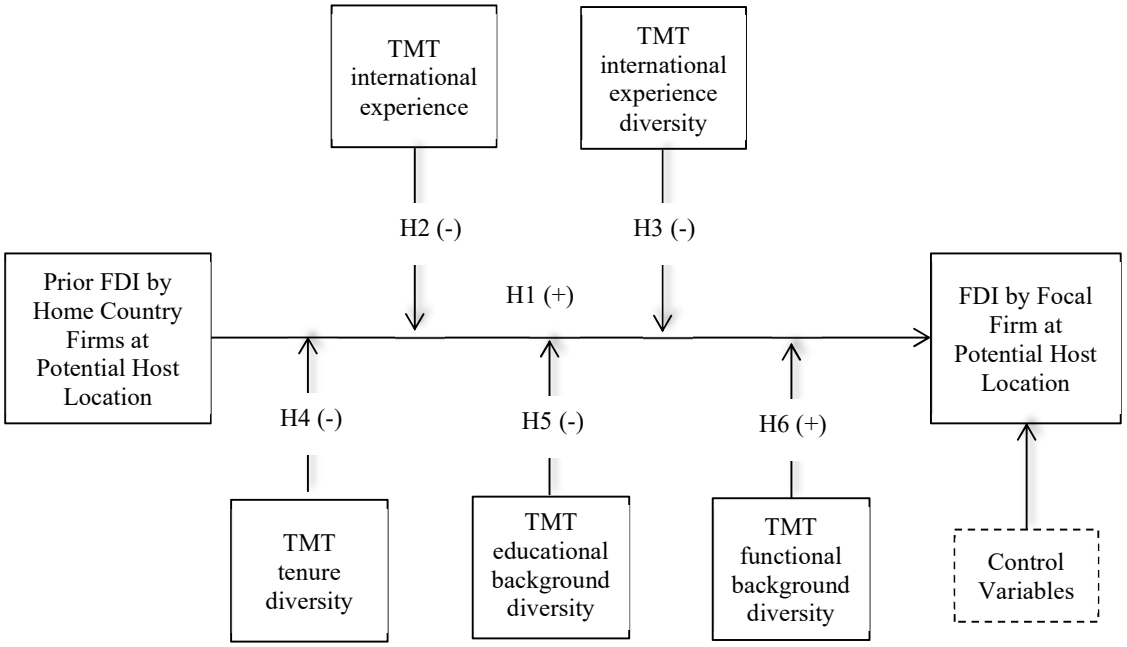

Figure 1.1 - Conceptual Model

1.4 RESEARCH CONTRIBUTIONS

This research adds to the extensive body of knowledge that investigates the determinants of FDI location choice. This research study contributes to the literature in multiple ways. While

it extends our understanding of cognitive institutional forces by bringing in the role of upper echelons, it also makes specific contributions to the literature. While, it is uniquely positioned to investigate the effect that teams make on the institutional mimicking in foreign entry decisions, it also contributes significantly by identifying various team attributes that interact with the institutional mimicking. Based on the context of the research, I have divided the contributions into major and minor categories. These are summarised below.

The two major contributions of this research are as follows:

1. Firstly, this research contributes by identifying TMT functional diversity as an important variable in a firm's location choice. In this context, TMT functional diversity is identified as an important boundary condition of the institutional mimicking. Hence, TMT functional diversity is identified not only to negatively impact the foreign entry, but also strengthen the effect of other home country referents' location decisions on a firm's location choice decision.
2. Secondly, this research also contributes by identifying TMT tenure diversity as another boundary condition of the institutional mimicking in foreign entry decisions. The findings of this research suggest that TMT tenure diversity weakens the impact of other home country referents' location decisions on a firm's location choice decision.

The two minor contributions of this research are as follows:

1. Firstly, this research identifies that when firms do not have a prior presence in the host countries, then teams with higher international experience may become more risk averse. Consequently, such teams rely more on the decision of other home country referents while deciding a location for FDI. Therefore, the study identifies TMT international experience as another boundary condition of institutional mimicking in foreign entry decisions, especially when firms do not have a prior presence in the host countries.
2. Secondly, this research contributes to the upper echelon research by highlighting that effect of TMT attributes on imitation accentuates under varying conditions of uncertainty. In particular, this research shows that teams tend to rely more on deep-level attributes when faced with high uncertainty. Likewise, the impact of surface-

level attributes is more prominent when uncertainty is low. In particular, the results indicate that TMT international experience and TMT tenure diversity are prominent when the level of uncertainty is high, whereas TMT functional diversity is highlighted when uncertainty is low.

1.5 THESIS STRUCTURE

This thesis is composed of seven chapters and an appendix. This section provides a brief overview of each chapter.

Chapter 1 is the introductory chapter, that provides a background to the study. It introduces the research questions and objectives that I want to address in the thesis. This is followed by a section on research contributions and structure of the thesis.

Chapter 2 provides an overview of the relevant theories that have been employed in the thesis. It also provides a review of the existing literature, which is conducted separately for FDI location choice and upper echelon related constructs.

Chapter 3 constitutes the hypotheses development section, where I build the arguments and conclude with the hypotheses being postulated.

Chapter 4 provides an insight into the research design and methodology that has been employed to conduct the research. It starts with the research philosophy that has been employed and the reason for selecting the methods. This is followed by the sample selection and identification process. After this, it discusses the construction and data collection process of the variables that were identified in the research. Later, it discusses the techniques used to handle the missing data and the estimation technique that was used for the statistical analysis.

Chapter 5 provides the results of this research. It begins by assessing the assumptions of logistic regression. This is followed by a section on outliers and residuals. After this, it provides an insight into the data by discussing the descriptive statistics. Later, the chapter documents the results of the logistic regression, which were used to test the hypotheses. Lastly, it describes the various sensitivity tests that were run to assess the robustness of the results.

Chapter 6 provides an in-depth discussion of the results. It is followed by conclusions, contributions, limitations and recommendations for future research.

Chapter 7 is the appendix chapter. It covers various test results that are referred to in the thesis.

2 THEORETICAL UNDERPINNINGS AND REVIEW OF THE LITERATURE

2.1 INTRODUCTION

This chapter discusses the theoretical underpinnings of the research and conducts a review of the relevant literature. Firstly, the section on theoretical underpinnings provides an overview of the institutional theory and upper echelons theory. This section summarises the main arguments of the underlying theoretical perspectives. It is followed by a review of the FDI location choice literature, where various determinants of location choice are explained under prominent themes. The chapter concludes with a review of various TMT constructs.

2.2 THEORETICAL UNDERPINNINGS

A theory is defined as *"a set of interrelated propositions that provide a framework for understanding or explaining phenomena"* (DePoy & Gitlin, 2011, p. 18). The two primary theoretical frameworks that this research employs to develop the arguments are the institutional theory (sociological perspective) and the upper echelons theory. Here, it must be suggested that both: the mimicking effect (cognitive element) of institutional theory and upper echelon theory operate at an organisational level. This is because each firm may perceive different cognitive challenges and respond uniquely to them and likewise, each firm will have a unique combination of capabilities in their TMT for every given year. It should be emphasised that unlike other teams in the organisation (e.g. project teams which could be many at any given time, operate at a meso-level), the upper echelons are unique and represent a single team for the entire firm. Examples where researchers have used insights from upper echelon perspective for organisational level decisions (in the international institutional context) may include: Kaczmarek and Ruigrok (2013) and Greve, Nielsen, and Ruigrok (2009). Therefore, investigating the interaction of two perspectives is sound. The explanation for each theoretical foundation follows:

2.2.1 INSTITUTIONAL THEORY

The institutional theory provides the foundation for the primary argument in this research. Institutional theory predicts that a firm's ability to achieve prosperity depends on institutions, which define the *"rules of the game"* that shape societal transactions (North, 1990). The institutional theory considers that rules shape human interaction by reducing uncertainty. The wide use of institutional theory in the literature has made it complicated to decipher one perspective within the theory from the other one. In order to take into account the various perspectives that exist within the institutional theory, I follow the categorisation used by Meyer and Peng (2016). While considering the use of institutional theory, Meyer and Peng document three different traditions within the institutional theory. These traditions include: The Economics-based perspective, the Sociology-based perspective, and the Bargaining perspective between MNEs and Governments. Explanation of these traditions follows.

The *Economics-based perspective* considers institutions as incentive structures for driving the actors' decisions. The research within this domain suggests a *"conformity to rules"* perspective to acts as a mechanism for utility-maximisation. These rules operate outside the scope of actors, and act as constraints under which actors make their decisions. Four different ways in which these rules influence incentives are to reduce uncertainty, to shape agency relationships, to affect the efficiency of markets and business transactions, and to form market structures. Exemplar studies with this perspective include Khanna and Palepu (1999) and Brouthers and Brouthers (2001).

The *Sociology-based perspective* of institutions suggests that institutions are shared rules, beliefs and norms that impact the decisions by virtue of acceptance by the environment. In this context, theorists believe that actors adapt practices, as they are deemed acceptable by the institutions. This viewpoint builds on a legitimacy-driven perspective, rather than a typical economic efficiency-driven perspective (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). In this context, *"Legitimacy"* is defined as a *"generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions"* (Suchman, 1995, p. 574). Exemplar studies with this perspective include Ang et al. (2015) and Henisz and Delios (2001).

The Bargaining perspective within the institutional theory suggests that to a certain degree, actors are also involved in shaping the rules of the game. In the context of internationalisation, businesses influence governments and other non-governmental agencies by investing in special capabilities (Holburn & Zelner, 2010). The resultant institutions are thus a result of bargaining or negotiation between governments and businesses. Exemplar studies which utilise this perspective include Jiang, Peng, Yang, and Mutlu (2015) and Akbar and Kisilowski (2015).

This research builds on to the *Sociology-based perspective* of institutional theory, the discussion of which follows. The central tenet of this theoretical perspective is that firms adapt themselves to increasing environmental demands. Consequently, the institutional theory predicts that it is not internal mechanisms that shape the choices of the firms, but rather a few *"legitimate"* options, as determined by the actors in the firm's *"organizational field"* (Hoffman, 1999). An *"organizational field"* is defined as a *"community of organizations that partakes of a common meaning system and whose participants interact more frequently and fatefully with one another than with actors outside the field"* (Scott, 1995, p. 56). These actors provide legitimacy to the focal firm's choices, by exerting their coercive, normative and cognitive pressures. Barreto and Baden-Fuller (2006) label these social actors as *"legitimacy providers"* and define them as *"observers that have the status to assess the conformity of firm behaviour to specific socially constructed standards"* (p. 1561). Examples of such legitimacy providers can include; governmental agencies, trading and financing partners, professional associations and the public at large etc.

The institutional influences on firm outcomes can be of several types. To better unpack this concept of institutions, Scott (2001, p. 48) suggested that; *"Institutions are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life."* To simplify this, Scott (1995) also suggested the notion of *pillars*. According to him, the socially-constructed institutional environment is considered to be rooted in three distinct pillars, namely; *regulatory*, *normative* and *cognitive*.

The *regulatory pillar* is determined by the setting, monitoring and enforcement of rules, laws and (legal) expectations (North, 1990). This pillar includes the explicit regulatory

processes of rule setting, monitoring and legal sanctioning ensure the basis of legitimacy (Xu & Shenkar, 2002; Yiu & Makino, 2002). The regulatory process involves the power to establish rules and inspect others' conformity to the established rules. When regulators feel a need to alter the observed entity's behaviour, they can manipulate the associated rewards and punishments. Consequently, entities that establish and operate by the laws and regulations are considered legitimate.

The *normative pillar* introduces a prescriptive, evaluative and obligatory dimension to social life. Such institutions are generally considered *"rules of thumb"*, include aspects like standard operating procedures, professional standards or educational curricula (Hoffman, 1999). The normative pillar also refers to shared understandings and meanings that are embedded in the form of national culture, values, norms and the belief system of a given country (Yiu & Makino, 2002). To gain normative legitimacy, organisations tend to follow norms because of social, ethical and moral reasons (Palthe, 2014).

The *cognitive pillar* shapes the internal representation of the environment by actors. The cognitive pillar is based on the frameworks that help in formulating the nature of social reality. In this context, symbols like words, signs, and gestures help shape the meaning and understanding of the context (Hoffman, 1999). Researchers working in the cognitive field believe that it is the internal interpretive processes that are influenced by external frameworks (Ang et al., 2015; Jiang et al., 2014). To grant cognitive legitimacy, actors judge the organisation as belonging to a known organisational form, based on a set of recognisable characteristics. Therefore, by complying and having a desire to be similar to other more legitimate actors, organisations can bypass the increased scrutiny and suspicion by social actors and are considered legitimate (Bitektine, 2011; Palthe, 2014).

According to the institutional perspective, a firm's survival depends upon its ability to align and comply with the institutional environment and pressures (Kostova, Roth, & Dacin, 2008). The way firms align their strategies with external environmental concerns (or the three pillars) for legitimacy is termed as *isomorphism.* It is referred to as *"a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions"* (DiMaggio & Powell, 1983, p. 149). Corresponding to the three institutional pillars, DiMaggio and Powell (1983) identified three different mechanisms

through which institutional isomorphism occurs, i.e. *coercive isomorphism* (for the regulatory pillar), *normative isomorphism* (for the normative pillar) and *mimetic isomorphism* (for the cognitive pillar). The primary argument in this research is also based on the achievement of cognitive legitimacy – a phenomenon represented in the form of mimicking isomorphism (DiMaggio & Powell, 1983).

Researchers expect that high institutional or competitive pressures force firms to be isomorphic (Lieberman & Asaba, 2006). In this regard, DiMaggio and Powell (1983) explained that firms are likely to imitate others when they face increased uncertainty and information asymmetry. The fear of unknown and uncertainty makes firms rely on others who are considered more experienced or successful (Haunschild & Miner, 1997). On the other end, Hannan and Freeman (1977) believed that isomorphism occurs as a result of increasing competitive pressures among members of the population. In this regard, the fear of failure or below-par performance forces firms to model themselves on others. Both forms of isomorphism – institutional and competitive, exist in the management and strategy literature. Various contexts that have been investigated for isomorphism include; adaptation of innovations (Abrahamson & Rosenkopf, 1993), market entry (Haveman, 1993), corporate acquisitions (Haunschild, 1993), curricular adaptations by academic institutes (Kraatz, 1995), adoption of radio music program formats (Greve, 1996), product strategies (Brouthers, O'Donnell, & Hadjimarcou, 2005), and adoption of organisational practices (Guler, Guillén, & Macpherson, 2002) etc.

The institutional based perspective not only augments the industry and resource-based view but also provides a robust explanation of the environmental context in which multinational enterprises (MNEs) operate (Peng, Sun, Pinkham, & Chen, 2009). This research aims to utilise the conceptual foundations of mimicking isomorphism from institutional theory to explain a firm's imitation of location choice behaviour. In this research, the cognitive aspect of institutional theory not only helps to explain the imitation and mimicking of a firm's decision making but also generates opportunities to test its validity with other constructs which may promote or hinder the cognitive pressures on the firm. In this respect, I have utilised the upper echelon theory, which argues for various cognitive effects related to TMT attributes.

2.2.2 UPPER ECHELONS THEORY

Hambrick and Mason (1984) established the upper echelons perspective by introducing the role of TMTs in addition to that of the Chief Executive Officer (CEO). According to the upper echelons theory, the demographic characteristics of team members are a representation of their cognitive capabilities and hence, are an indicator of how firms make decisions. The underlying argument for introducing the team is that in addition to the CEO, the top team is instrumental in the strategic decision making of the firm. These top executives are of interest to theorists because not only do they provide an interface between the firm and its environment, but they are also powerful, and therefore, their choices and decisions are likely to have a profound impact on the organisation (Carpenter, Geletkanycz, & Sanders, 2004). The theoretical foundations of the upper echelons theory lie in behavioural theory, which suggests that under conditions of complexity, managerial choices are not always rational but primarily determined by behavioural and social factors (Cyert & March, 1963). The upper echelons theory assumes that although TMT members face common challenges and ambitions, top managers' perceptions are filtered through cognitive bases and values (Carpenter et al., 2004; Hambrick & Mason, 1984). Since these cognitive constructs are unobservable, managerial characteristics are used as proxies. In this regard, upper echelons researchers utilise Hambrick and Mason's (1984) work on the demographic characteristics of top managers as measures of individual experiences, skills, cognitive styles, and information sources to explain a variety of corporate strategic decisions (Herrmann & Datta, 2005; Nielsen & Nielsen, 2011; Sanders & Carpenter, 1998).

TMT literature suggests that the composition of the managerial team is a crucial determinant of the information available to the firm for problem identification and solution finding (Bantel & Jackson, 1989). With differentiated belief structures, firms can quickly and easily opt for change and show disruption in existing trends (Dutton & Duncan, 1987). Hence, TMT researchers try to relate TMT traits to receptivity to change, and willingness to take risks (Herrmann & Datta, 2005; Sambharya, 1996). Likewise, the heterogeneity or diversity of TMT traits is generally associated with a variety of information sources, different perspectives and creative/innovative decision making in corporate strategic decisions (Tihanyi et al., 2000; Wiersema & Bantel, 1992).

In addition to using the various characteristics of the top managers, the literature also highlights the use of diversity-related constructs (Harrison et al., 1998; Pelled, 1996). The central assumption behind the diversity-related arguments is that the demographic diversity in top managers can translate to either cognitive improvement or deterioration, thus impacting the strategic decision making of the firm. Upper echelon researchers base their investigations on such insights and frequently propose TMT diversities' relationships with firm-level outcomes.

The substantial literature on upper echelons has been rigorously tested in various contexts. After being introduced in Hambrick and Mason's (1984) seminal article, upper echelons research has not only been subject to intense scrutiny but has also been expanded to incorporate new dimensions. Using the same theoretical framework, researchers try to relate TMT traits with receptivity to change and willingness to take risks, and heterogeneity or diversity to a range of information sources, unique perspectives and creative/innovative decision making (Boeker, 1997b; Wiersema & Bantel, 1992). The literature builds on the argument of diversity within TMTs and provides evidence to support that it impacts a host of organisational decisions. For example, greater diversity in TMTs is shown to be associated with international diversification (Sambharya, 1996), level of internationalisation (Carpenter & Fredrickson, 2001; Rivas, 2012), creativity and innovation (Bantel & Jackson, 1989; Boone, Lokshin, Guenter, & Belderbos, 2018), formation of new alliances (Lee & Park, 2006), time to market (Knockaert, Ucbasaran, Wright, & Clarysse, 2011), operational performance (Naranjo-Gil, Hartmann, & Maas, 2008), selection of new geographic areas (Barkema & Shvyrkov, 2007), and strategy and performance (Finkelstein & Hambrick, 1990) etc.

In order to better comprehend the concept of diversity, the following sections provide a brief review of the theoretical perspectives that upper echelons researchers have used to explain the effect of diversity.

2.2.3 THEORETICAL PERSPECTIVES OF DIVERSITY

Diversity refers to *"the distribution of differences among members of a unit with respect to a common attribute X, such as tenure, ethnicity, conscientiousness, task attitude or pay"* (Harrison & Klein, 2007, p. 1200). Researchers who investigate the diversity of top managers' attributes have highlighted its importance for organisations. They suggest that firms who can manage the *"value in diversity"*, can use it to create superior solutions (Hoffman, 1959) or

even as a source of competitive advantage (Cox & Stacy, 1991). Upper echelon researchers also believe this and often hypothesise for the after-effects of diverse team members. The over-arching term *diversity* has been examined from multiple perspectives and dimensions. To better understand this, the following sub-sections provide a review of concepts which are most commonly applied in diversity and upper echelons research.

The way diversity operates makes it an interesting phenomenon to examine. Consider, for example, a team setting in a university, where heterogeneity among students can lead to a variety of consequences. A team of engineering students can come up with a new product idea that might be different from the one created in combination with their fellow students from the marketing and strategy disciplines. In another example, a team of students (of the same level) can expect to have an active discussion from everyone while a team comprising freshmen and senior students may not. In the first example, a range of functional knowledge plays a decisive role in encouraging discussion and outcome. In the second example, the senior students will probably hi-jack the team debate, and this will compromise the opinion of the freshmen members.

Due to the complexities described in the example mentioned above, diversity is often referred to as a *double-edged sword* (Homberg & Bui, 2013; Horwitz & Horwitz, 2007). Despite its benefits in delivering a variety of perspectives, diversity may generate conflict or disagreement, thus affecting timely action and, possibly, performance as well (Chen & MacMillan, 1992; Eisenhardt, 1990; Hambrick, Cho, & Chen, 1996). Such intricacies make it critical to examine the various theoretical perspectives that explain the outcome of diversity. Van Knippenberg and Schippers (2007, p. 524) consider these perspectives as *"loosely defined applications of social categorisation theories…"*, that tend to explain the outcome of diversity attributes. The understanding of this concept is pivotal for comprehending upper echelons research, as it strongly banks on the concept of diversity to showcase its real effect. Various theoretical perspectives which formulate the very foundations of the concept of diversity frequently appear when upper echelon researchers build their arguments. Due to the overlap in these perspectives, researchers do not shy away from using them in combination with each other. In the following section, I review these three perspectives, as suggested by Williams and O'Reilly III (1998).

2.2.3.1 THE INFORMATION AND DECISION-MAKING PERSPECTIVE

The information and decision-making perspective rests on the cognitive-diversity principle (Homberg & Bui, 2013). The principle of cognitive diversity highlights the benefits of heterogeneity in information sources that members bring to the team (Harrison & Klein, 2007; Williams & O'Reilly III, 1998). According to this perspective, the variety of attributes represents a greater number of sources for the cognitive betterment of the team (Gruenfeld, Mannix, Williams, & Neale, 1996). Consequently, heterogeneity of experiences, functional backgrounds, educational backgrounds, and tenures are considered a source of a variety of perspectives. Members get an opportunity to interact with each other and benefit from the extended informational networks of others. With a variety of perspectives, teams are expected to have a broader range of ideas and knowledge bases available for decision making. Proponents of this argument suggest that access to greater information could even overcome the potential adverse effects of diversity (Williams & O'Reilly III, 1998). As a result, when teams generate a more abundant supply of ideas, their ability to make sophisticated and creative decisions increases. Some researchers also argue that there are limitations to the cognitive diversity argument. For example, Ancona and Caldwell (1992) showed that despite the increase in the ability to make complex decisions, diversity could impede implementation and compromise teamwork.

Despite the limitations of this perspective, researchers usually only consider task-related attributes and consider them to be a better fit for the cognitive diversity argument. For example; Hambrick et al. (1996) argue in favour of heterogeneity in TMT's functional backgrounds, educational backgrounds and tenures to influence a firm's strategic actions. Likewise, Carpenter and Fredrickson (2001) argued in favour of diversity in educational, functional and tenure heterogeneity.

2.2.3.2 THE SOCIAL CATEGORISATION PERSPECTIVE

In addition to the information and decision-making perspective, the social categorisation perspective also helps to explain the outcome of diversity. This perspective is mainly based on the social categorisation theory (Turner, Hogg, Oakes, Reicher, & Wetherell, 1987) and suggests that inter-group bias may hamper the group processes among dissimilar group members, thus limiting the positive outcomes of diversity (van Knippenberg & Schippers,

2007). Some of the group processes that are susceptible to member differences are conflict, cohesion, cooperation, communication and productivity.

Williams and O'Reilly III (1998) mention a step-wise process through which social categorisation takes place within teams. They suggest that social categorisation initiates because individuals desire to have high self-esteem, which motivates them to engage in social comparison with other members. While doing so, members categorise themselves and others into virtual groups. This process may generate stereotyping, ethnocentrism, ingroup norms and generate a sub-culture within the larger team (Hogg & Terry, 2000). Because of this, the within-group bias generates, and members outside the arbitrary group are considered less attractive, inferior, unfriendly and less trustworthy (Brewer, 1979). Consequently, active group processes within a team suffer, and a situation of conflict develops. Because of this conflict, the team's ability to fully exploit the cognitive resources of each member is compromised.

Unlike task-related attributes that are generally considered more relevant for the information and decision-making perspective, non-task related attributes are considered more prone to social categorisation. The various characteristics that could initiate a social identity and self categorisation among individuals can include age, gender, and race, among others. (Pelled, 1996; Pelled, Eisenhardt, & Xin, 1999; Stangor, Lynch, & et al., 1992; Tsui, Egan, & O'Reilly, 1992).

2.2.3.3 THE SIMILARITY/ATTRACTION PERSPECTIVE

In addition to the information and decision-making and the social categorisation perspective, the third prominent theoretical argument that helps to explain the outcome of diversity is the similarity/attraction perspective. This perspective argues that the effect of diversity is based on the degree to which members consider themselves similar or different from each other (Byrne, 1971, 1997). The underlying reason for this behaviour is the shared life-experiences, values, beliefs and principles (among similar attribute holders) that increase the chances of communication and interaction between them. Like-minded members find it more desirable to work with each other, as they may also reinforce a similar argument or share a similar understanding when members consider various solutions. While being on the opposite end of the information and decision-making perspective, the similarity/attraction perspective proposes the concept that homogenous teams are better for team outcomes. In particular, this perspective

focusses on team cohesion and performance, rather than cognitive outcome (Homberg & Bui, 2013; Jehn & Mannix, 2001).

Multiple examples exist in the literature, where researchers use the arguments of the similarity/attraction perspective to explain the effect of diversity. For example, McCain, O'Reilly, and Pfeffer (1983) hypothesised that members who were not part of the dominant cohort were most likely to leave. Likewise, Pfeffer and O'Reilly III (1987) argued that turnover among nurses was linked with the heterogeneity of length of service. Similarly, Zenger and Lawrence (1989) showed that age and tenure distributions were linked with technical communications among cohorts. The baseline argument in these investigations was that the grouping of members, because of the similarity of attributes, influences adverse outcomes.

2.2.4 Frameworks to Explain the Outcome of Diversity

Various frameworks are used to accommodate the multiplicity of outcomes associated with diversity. The following sections review these frameworks that explain the outcome of diversity-related variables. Firstly, I provide a review of Harrison and Klein's (2007) typology of *Separation*, *Variety* and *Disparity*. This perspective suggests that the outcome of diversity-related variables is based on how variables are constructed and operationalised in research. Secondly, I cover the notion of *Visibility* and *Job relatedness* of diversity attributes as suggested by Pelled (1996), Harrison et al. (1998) and Jackson et al. (1995) This perspective suggests that the outcome of diversity-related constructs is based on the nature of traits - being related to work and visibility. Although, both the perspectives are not mutually exclusive, they could have different outcomes, and hence, it is essential to understand the dynamics of each framework.

2.2.4.1 Harrison and Klein's Theoretical Construction of Variables

Harrison and Klein (2007) stressed that demographic researchers should align the theoretical conceptualisation of attributes with the construction of their variables. Individual attributes (being the underlying content of conflict and group outcome) reflect the structure of diversity (Jackson et al., 1995; Pelled, 1996). To better understand the conceptualisation of these attributes, Harrison and Klein (2007) de-constructed the diversity-related variables on the three dimensions of *Separation*, *Variety* and *Disparity*.

Separation refers to differences in positions or opinions (for example, risk appetite, organisational commitment, etc.). Separation denotes the horizontal distance between the values (that members occupy) along a single dimension. Harrison and Klein (2007) proposed that greater similarity (or less distance in viewpoints) among team members would reduce separation among the team members and could generate unified solutions. On the contrary, greater separation in viewpoints is expected to reduce the cohesiveness in the team, as it may generate disagreement, distrust and opposition. The concept of separation is built on the theory of similarity-attraction (Byrne, 1971, 1997), social identity, self-categorisation (Hogg & Terry, 2000; Turner et al., 1987) and attraction-selection-attrition paradigms (Ployhart, Weekley, & Baughman, 2006; Schneider, 1987). The underlying concept behind these perspectives is that individuals tend to like to form groups with others who share similar psychological characteristics, as it verifies and reinforces their point of view. The opposite occurs when team members hold distant/dissimilar positions for the attribute. Reduction in cohesion and social unity in the group results in adverse outcomes like turnover and poor performance of the team (Pfeffer & O'Reilly III, 1987; Williams & O'Reilly III, 1998).

To understand the perspective of separation, one can consider the example of the diversity of age within a team. With increasing age, an individual's behaviour changes (Carlsson & Karlsson, 1970). An ageing person shows disengagement and is less flexible to changing the environment and more concerned with the inner self (Cumming, 1964). Thus, two members of a team of different ages can be considered to exist on a single spectrum, one with the higher value and other with the lower value. The distance between the ages of members is reflective of the separation that exists on an opinion (as it gets influenced by the age).

Variety refers to differences in kind or category, primarily of information, knowledge or experience among unit members (for example the variety of experiences in different countries or knowledge of different fields) (Harrison & Klein, 2007). It refers to a concept that team members combine to bring in a plurality of information sources. The dimension of variety draws insights from the theory of information processing (Simon, 1978), the law of requisite variety (Ashby & Goldstein, 2011), and the selection and retention perspectives (Campbell, 1960). Contrary to the *separation* dimension, the *variety* dimension assumes that team members differ from one another on a qualitative basis. The variety dimension stresses the advantages of heterogeneity due to the presence of different perspectives within the team. With

a variety of opinions, experiences and different functions, the team's cognitive performance is expected to increase. According to this form of diversity, teams are diverse based on how equally their members are spread across all categories of the attribute. It is expected that with an increasing variety or spread, members add several information sources, knowledge bundles and unique network ties to the team. These knowledge bundles or cognitive resources are not expected to clash with each other, as each one of them operates in a separate dimension. Hence, with a variety of cognitive resources, an additive effect takes place, without compromising the goal processes.

To better understand the example of the variety of attributes, one can consider the case of experience or education. A variety of educational backgrounds in a team can bring about different cognitive and knowledge resources to the team, without necessarily contradicting each other. This additive effect of cognition, without sabotaging the team cohesiveness could be considered an effect of the variety of educational backgrounds (Wiersema & Bantel, 1992; Williams & O'Reilly III, 1998).

Disparity refers to the differences in concentration or distribution of valued social assets or resources, like salary, title, reputation, status, or expertise within a team (Harrison & Klein, 2007). It refers to comparisons of vertical differences among members of the team. The disparity dimension draws its underlying arguments from distributive justice theory (Cohen, 1987), tournament theory and stratification status hierarchy (Ravlin & Thomas, 2005). The concept of disparity suggests that members who have a smaller share of the attributes are more responsive to other members and feel pressured to accept the decision by those who hold a larger share of attributes (Blau, 1960). Consequently, the disadvantaged members may exhibit less participation and could even consider quitting the team. Another caveat in the case of disparity is that the direction of the unequal distribution matters. Hence, if one member of the team is superior to the other team members in an area of desired social characteristics (like; expertise, pay, status) then the behaviour of the entire team would be different when compared to the situation where the entire team is superior to one person within the team.

To understand the concept of disparity, we can consider the example of a team consisting of a CEO and a few other quality managers (who will have a much lower position in the corporate hierarchy). In this case, the disproportionate share of power and status with the

CEO may suppress the ideas and voice of managers, thus largely influencing the group outcome.

Despite the compelling explanation that Harrison and Klein (2007) offer, they also suggest not to overlook the critical distinction between different variables. To better qualify, they also provided a guideline that it is particularly important to define the exact meaning of diversity in any demographic research. To better explain why this is important, they offered an example of tenure diversity, which could be hypothesised from all three perspectives of separation, variety and disparity. For these reasons, it is essential to consider the underlying assumptions of each demographic variable, that is being examined.

2.2.4.2 NATURE OF DIVERSITY IN WORK-RELATED TEAMS

To further understand diversity in work-related teams, it is essential to review the framework based on the nature of diversity attributes. The overarching view among researchers suggests that diversity can be categorised along with multiple characteristics. In this context, different terminologies but relatively similar concepts appear in the literature, like *readily detectible* vs *underlying* and *task-relatedness* vs *relations-oriented* by Jackson et al. (1995); *observable* and *underlying attributes* by Milliken and Martins (1996); *visibility* and *job-relatedness* by Pelled (1996) and *surface* and *deep level* of diversity by Harrison et al. (1998). To accommodate a more comprehensive view of categories, I follow Pelled (1996) and Harrison et al. (1998) in categorising diversity-related attributes along the lines of *visibility of attributes* and *job-relatedness*. These two dimensions are particularly crucial as Pelled (1996, p. 618) mentions: *"(that these two) dimensions of job-relatedness and visibility have the greatest tendency to trigger, respectively, (a) selective perception of job-tasks and categorisation of individuals, mental processes that promote substantive and affective conflict"*. Later sections in this chapter provide an overview of the *substantive* and the *affective conflict*.

The two categories that constitute the *visibility* of attributes are *surface-level* and *deep-level* diversity. Harrison et al. (1998) define *surface-level* diversity as the differences in the overt demographic or biological characteristics of the members. These surface-level characteristics consist of attributes like age, gender, race, physical appearance etc. and are readily detectable by other members.

On the other end, *deep-level* diversity refers to differences in members' attitudes, behaviours and values. This category refers to the more hidden, deeply entrenched and behavioural level attributes of diversity like conscientiousness, satisfaction, organisational commitment, risk appetite etc. Unlike *surface-level* diversity characteristics, the *deep-level* diversity characteristics are developed and learned over time, with interactions and experiences (Jackson et al., 1995).

The literature suggests that characteristics like international experience and educational background are deep-level as well as high job-related attributes, whereas characteristics like age or gender are not only more visible but also less job-related. Researchers suggest that as time passes, the effect of surface-level diversity on the team outcomes reduces, whereas the effect of deep-level diversity is enhanced (Harrison, Price, Gavin, & Florey, 2002). This mechanism works as social integration overcomes the adverse effect on surface-level attributes, and the members start to focus more on deep-level attributes. Also, as time passes, individual team members tend to become similar, especially to maintain a continuous identity and achieve higher status in the team (Goldberg, Riordan, & Schaffer, 2010).

The dimension of *job-relatedness* categorises attributes on a scale of high to low-level relatedness to work. Pelled (1996) describes job-relatedness as the extent to which the attribute captures distinct experiences, skills or perspectives relevant to the cognitive tasks at work. The job-relatedness of an attribute is ascertained if it provides a task perspective or some technical skills to the group member and hence is considered a source of positive cognitive contribution to the work-group (Naranjo-Gil et al., 2008). Examples of job-related attributes include; educational background, functional background, formal (work-related) credentials, organisational tenure, and unit membership. Whereas, examples of attributes which exhibit less job-relatedness include social ties, social status, age, race and physical features.

The perspective that the outcome of diversity-related variables is based on the visibility and job-relatedness of variables considers conflict to be a mediating factor in determining the outcome. The following section provides a synthesis of the literature on the conflict in work-related teams.

2.2.4.3 DIVERSITY, CONFLICT AND DECISION MAKING

It is considered that diversity results in *conflict*, which in return, generates *group performance* (Pelled et al., 1999). Decision makers differ from each other when it comes to defining problems, evaluating alternatives, deciding on solutions and finalising decisions. This difference in opinions causes a disagreement (*conflict*) which must be resolved before approaching the subsequent stages in the decision-making process (Tjosvold, 1985). In this context, the higher cognitive output is considered superior *group performance*. The difference in values of *visibility* and *job-relatedness* (as discussed in the previous section) gives rise to a two-dimensional conceptualisation of conflict, i.e. *task-related conflict* and *emotional conflict* (Amason, 1996; Jackson et al., 1995; Jehn, 1994; Pelled, 1996). In the following sections, these two forms of conflict are explained.

The nature of the *task-related conflict* (also known as the *substantive conflict*) refers to a disagreement in work-related ideas, which allows groups to discuss ideas, criticise each other's views objectively and propose better-suited solutions (Jehn, 1994; Pelled, 1996). Although the word *conflict* has negative connotations, the real outcome of the *task-related conflict* is constructive criticism and debate, which yields positive results. In work-related discussions, team members share their ideas and deliberate on how to handle task-related challenges. Here an opposition of ideas can help facilitate the exchange of knowledge and help the team grasp a better understanding of the problem and its solutions. Task-related conflict is considered to be an outcome of task-related diversity variables, rather than more visible attributes; for example organisational tenure is a better predictor of task-related conflict than the ethnicity of members (Pelled, 1996). Therefore, the diversity of work-related attributes coupled with (task-related) debate tends to enhance the comprehensiveness of the decision and the performance of the team in various cognitive tasks (Amason, 1996; Simons, Pelled, & Smith, 1999).

Contrary to *task-related conflict*, *affective conflict* (also known as *emotional conflict*) refers to a situation in which members with emotional and incompatible attitudes towards one another feel disgruntled, and within-group communication suffers (Jehn, 1994). Instead of being influenced by deep-level attributes, the affective conflict is triggered by surface-level characteristics. The emotional and affective nature of this conflict can cause members to feel

fear, frustration, anger and other negative feelings (Pelled, 1996). Consequently, members are reluctant to share their opinions and will not contribute meaningfully to group discussions. An example of this is the case of diversity of age, which is a better predictor of emotional conflict than the diversity of educational background (Pelled, 1996). This affective nature of conflict refers to a perception of an intra-group clash, characterised by negative sentiments, which reduces the social integration of members and deteriorates the cognitive performance of the group (Amason, 1996).

2.3 THE LITERATURE ON FDI LOCATION CHOICE

To evaluate the empirical contributions and take stock of the existing literature in FDI location choice, I started by consulting existing review articles (Kim & Aguilera, 2016; Nielsen, Asmussen, & Weatherall, 2017). I also explored various electronic databases and top journals using keywords like *"FDI location choice"*, *"determinants of location"*, and *"foreign location"*. I realised that the literature on FDI location choice is highly convoluted, as it heavily borrows the learnings from other IB related phenomena, like internationalisation, global strategic posture, and entry mode. This review is, however, limited to studies that investigate FDI location choice or factors that influence the extent of investment flow in cross-border investments. To remain consistent with the objectives of this research, I did not include papers that investigate location choice at a sub-national level or other FDI-related phenomena such as entry modes. After downloading the relevant articles, I created a database of these articles and synthesised them to design this review.

The substantial literature on FDI related studies is highly fragmented, as researchers have investigated it as a function of different attributes, including; location-specific characteristics (Buckley, Clegg, et al., 2007; Dunning, 1988, 1998) or firm-specific characteristics (Henisz & Delios, 2001; Zhou & Guillén, 2015). The literature further influences the phenomenon of selecting a foreign location on firms' internationalisation and mode of governance choice. Therefore, given the complexity of the process, it is not uncommon for researchers to rely on more than one theoretical perspective to explain the firm's location decision (Chang & Park, 2005; Henisz & Macher, 2004; Koçak & Özcan, 2013).

FDI location choice research lies at the heart of IB scholarship and has therefore, been a subject of intense scrutiny (Nielsen et al., 2017). The rich context of FDI location choice has

provided space for ground-breaking contributions and has significantly pushed IB scholarship ahead. Various arguments have been presented and have evolved into a complex set of push and pull factors that determine the location where FDI should land (Sethi, Guisinger, Ford Jr, & Phelan, 2002). Despite this complexity and the intricate nature of the literature, the following sections provide a synthesis of determinants of FDI location choice decision.

2.3.1 DETERMINANTS OF FDI LOCATION CHOICE

Research on FDI location decisions has benefited tremendously from the growth in IB research. Early explanations of FDI in strategy literature emphasised that firms engage in FDI to capitalise on capabilities, advantages, and resources that are not shared by the incumbents in host territories (Hymer, 1960). A few years later, the *product life cycle* concept was introduced - theorising that firms engage in foreign investments to establish manufacturing facilities for products which have become standard and mature at home (Vernon, 1966). This concept was not widely applied as it was criticised for being relevant only to the post-World-War II period (Meyer, 2015). Later, investment behaviours were explained through the lens of *internalisation*, which argued that firms allow the absorption of transaction costs when other modes of expansion are considered unfeasible (Williamson, 1975). Within the same timeframe, the *internationalisation process* was also introduced in the Upsaala model to explain the foreign expansion strategies of MNEs, through the sequential build-up of commitments over time (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). A few years later, an effort was made by Dunning (1980, 1988) who consolidated the various viewpoints and shared the *Eclectic theory* based on *Ownership*, *Location* and *Internalisation* advantages (also known as OLI theory) to explain the flow of FDI and related motivations. Among these diverse perspectives, the *institutional* viewpoint also emerged with its attempt to explain the effect of environmental variables including policy hazards, regulations, norms and culture on the flow of FDI (Barkema et al., 1996; Peng, Wang, & Jiang, 2008). In the following sections, I review the factors influencing FDI location choice and organise them under commonly recurring themes in the literature.

2.3.2 ECONOMIC FACTORS AND FDI LOCATION CHOICE

One of the fundamental goals of organisations is to maximise the economic return on their investments. When firms engage in exporting, they incur trade costs, which may include

transportation, tariffs, and import duties etc. The *new trade theory* addresses such costs and suggests that if such trade costs are high enough to counter the advantages of economies of scale (realised at prior location), then firms invest in foreign locations to overcome such challenges (Krugman, 1979). Using this theoretical perspective, the *"proximity hypothesis"* states that firms invest in other countries to get closer to their foreign customers and take advantage of the lower factor prices (Brainard, 1997; Desbordes, 2007).

In addition to the proximity hypothesis, the classical economic tradition also incorporates transaction cost viewpoint to explain the FDI location choice decision. The transaction cost theory predicts that firms opt for the alternative, that yields the highest risk-adjusted return on investment (Anderson & Gatignon, 1986; Williamson, 1973). Some of the expenditures incurred at the host location may include labour costs, transportation and logistics costs, the cost of raw materials, the availability, and cost of land. These costs are expected to influence future cash flows and hence, impact the decision of the firm to invest in a host country. In this regard, the literature realises that lower corporate tax rates (Root & Ahmed, 1978; Willard, 1994), lower transportation costs (Woodward & Rolfe, 1993), lower wage rates (Doh, Bunyaratavej, & Hahn, 2008), lower labor standards (Duanmu, 2014), lower production costs (Calò & Pizzutilo, 2014), lower travel time (Boeh & Beamish, 2012) and lower exchange rates (Grosse & Trevino, 2005) should attract FDI.

2.3.3 OLI MOTIVATIONS AND FDI LOCATION CHOICE

Dunning (1980, 1988) introduced an overarching concept of the *eclectic theory* (OLI) to untangle why FDI would flow to certain countries. According to this theory, it is the collection of organisational, location-related and internalisation factors that influence firms to engage in FDI. The ownership advantages refer to the advantages accrued because of the ownership of tangible and intangible assets, technological capabilities or product innovations that motivate firms to select countries where they can redeem their competitive advantages (because of the ownership of those resources). The *resource-based view* asserts that value (V), rarity (R), inimitability (I), and organisational embeddedness (O) of the assets/resources pushes a firm to leverage and exploit them as sustainable competitive advantages (Barney, 1991) in the overseas markets. The location advantages signal the suitability of the geographic area chosen for FDI. Several locations can be attractive because they provide access to natural and labour resources,

are near to an important market or have a large population. Similarly, the internalisation advantages are based on the capacity of firms to manage activities within their value chain (for example, the decision to engage in licensing vs FDI). As a consequence, firms tend to internalise intermediate cross-border activities. Using these advantages as theoretical underpinnings, the literature shows how FDI is attracted to different locations.

Using the OLI perspective, the literature shows how the three motives work in conjunction with each other. For example; Petrou (2007) argued that multinational banks from developed countries deployed their assets in overseas markets to redeem benefits because of better capabilities and resources. Similarly, large sized firms are expected to invest in distant markets and enjoy the benefits of their large asset-base (an advantage which is not available to smaller firms) (Stoian & Filippaios, 2008; Terpstra & Yu, 1988). In parallel to this argument, Lei and Chen (2011) showed that firms with strong networks and ownership advantages preferred to invest in more developed locations. These advantages include superior production technology, the ability to handle and develop processes, superior products, procurement and distribution capabilities and relationship management.

In addition to the ownership advantages, the attributes of potential locations also feature to suggest why firms would invest in certain countries. It is generally argued that firms wish to invest in countries in order to secure access to large (Li & Guisinger, 1992; Terpstra & Yu, 1988) and economically well-off markets that have bigger populations, higher standards of living, higher GDPs and higher quality of public services (Galan & Gonzalez-Benito, 2006; Kundu & Contractor, 1999). Likewise, firms also prefer countries which exhibit policy stability coupled with incentives for foreign investors, e.g. availability of a free trade zone, tax holiday schemes, and availability of local infrastructure. (Cantwell & Mudambi, 2000; Loree & Guisinger, 1995; Woodward & Rolfe, 1993). Similarly, firms are also attracted to countries that are more accepting of foreign investments, that have a higher volume of trade and are open in their business environments (Stoian & Filippaios, 2008). Other traditional location advantages like logistics and trade connectivity (Ulgado, 1996), or access to energy, raw materials, technology (Brush, Marutan, & Karnani, 1999) or proximity to existing subsidiaries (Flores, Aguilera, Mahdian, & Vaaler, 2013) are also helpful in attracting FDI.

Using the OLI perspective, Dunning (1998) also proposed the notion of FDI motivations, including *natural resource seeking*, *market seeking* and *efficiency seeking* to explain the flow of FDI. The extent to which these motivations are exhibited in investment depends upon many factors such as country of origin, level of state-ownership, mode of entry, an abundance of resources at the host location. Using these arguments, there is evidence in the literature to support the notion that MNEs from developed and developing countries invest with different motivations (Kedia, Gaffney, & Clampit, 2012; Tatoglu & Glaister, 1998; Wang, Hong, Kafouros, & Wright, 2012). Firms motivated by such incentives are even able to overcome the negative influence of corruption in host locations (Petrou & Thanos, 2014). Firms also alter their behaviour because of influences at home. Buckley, Clegg, et al. (2007) observed that Chinese motivations for investment altered from being proximity centric to being more natural resource seeking, primarily because of state encouragement and policy changes of the home government. Also, Ramasamy, Yeung, and Laforet (2012) noticed that while Chinese state-owned firms were engaging in more natural resource seeking investments, the private firms were investing with market seeking objectives. The literature also argues that firms engage in FDI not only to transfer resources to another host location and yield rents, but also to learn and seek knowledge from the host markets (Chidlow, Salciuviene, & Young, 2009; Cui, Meyer, & Hu, 2014; Makino, Lau, & Yeh, 2002; Yoo & Reimann, 2017). Therefore, FDI provides an excellent opportunity for firms to gain access to scientific and educational infrastructure and enjoy intra-industry and inter-industry spill-overs at host locations (Cantwell & Piscitello, 2002).

2.3.4 AGGLOMERATION ADVANTAGES AND FDI LOCATION CHOICE

Within the location choice literature, the *agglomeration theory* also explains the flow of FDI. The fundamental argument of this viewpoint is that firms agglomerate in specific locations (in a Silicon Valley-style) to take advantage of network externalities (advantages) that exist because of geographic concentration (McCann & Folta, 2008). Researchers also often use *"Clustering"* and *"Co-Location"* as alternative terms to identify agglomeration.

While some firms may agglomerate for *exogenous* reasons including the unique physical conditions of an area; or natural resources and advantages (Marshall, 1925), others might agglomerate because of reasons linked to the presence of other firms, often termed as

endogenous reasons. The endogenous reasons could include specialisation externalities created by the presence and activity of other related firms. These co-locating firms are especially interested in locations where incumbents offer significant contributions to spill-overs and externalities (Kalnins & Chung, 2004). Among many types of externalities, a prominent externality originating from the presence of other firms is the higher chance of innovation – which results from the cross-fertilisation of ideas across a variety of firms (Bell, 2005; Jacobs, 1969). Researchers within this field believe that certain location-specific factors like scientific and educational infrastructure increase the potential for spill-overs and hence attract FDI (Cantwell & Piscitello, 2002). Although the opportunity to avail oneself of externalities is available to any firm, researchers argue that such externalities are predominantly observed when firms are from the same industry or national origin (Chang & Park, 2005; Head, Ries, & Swenson, 1995). Other externalities, including access to specialised labour, technology spill over and availability of specialised inputs also attract FDI (Alcácer & Chung, 2014; Jindra, Hassan, & Cantner, 2014).

2.3.5 STRATEGIC AND COMPETITIVE REASONS FOR FDI LOCATION CHOICE

Explanations of the decision to locate FDI also exist in the strategy literature. This stream of research amalgamates *industrial organisation* (IO), *oligopolistic rivalry* (Knickerbocker, 1973) and IB literature to point towards reasons such as the benefits of entering, the opportunity cost of not entering and multi-market competition in foreign markets. This perspective believes that the trade-off between the benefits of entering (and competing) or avoiding competitors (mutual forbearance) determines the location decision of the firm (Alcácer, Dezső, & Zhao, 2013; Baum & Korn, 1999). The underlying argument in oligopolistic rivalry literature suggests that firms are attracted not only to location-specific characteristics but are also interested in making choices across time and markets in order to improve their own strategic and competitive positions (Adler & Hashai, 2015; Caves, 1971).

Initial explanations of FDI and competition are associated with Hymer (1960), who proposed treating FDI as the result of a firm's decision to go abroad and enjoy advantages related to market and industry structures. Consequently, when the leading firm invests in a country, it initiates a reaction among the competitors, who follow the lead firm and invest at the same location. Such reactions are generally not industry-wide or nation-wide, as firms

carefully select whom they need to compete with (Rose & Ito, 2008; Yu & Ito, 1988). The underlying reason for this behaviour is to counter competition and minimise risk for the follower firm (Flowers, 1976). Although it might be an expensive and resource intensive strategy to counter oligopolistic competition, firms engage in this behaviour to prevent competitors from establishing and gaining market share in the new location. Such motivations may even push firms to invest in riskier locations, especially when the competition at home is intense (Alcantara & Mitsuhashi, 2012; Delios, Gaur, & Makino, 2008). Given the nature of competition, such *follow the leader* behaviour is pronounced if both the leader and follower firms have high market shares in the local market (Gimeno, Hoskisson, Beal, & Wan, 2005) or when target locations have fewer competitors (Koçak & Özcan, 2013).

2.3.6 INSTITUTIONS AND FDI LOCATION CHOICE

The institutional perspective rests on the idea that the environment is primarily responsible for determining firm decisions. Basing itself on the *rules of the game* standpoint, institutions function to reduce uncertainty and provide meaning to differences between countries (North, 1990; Peng et al., 2009). Organisations are expected to conform to environmental conditions, and isomorphic behaviours are considered a requirement for achieving legitimacy (DiMaggio & Powell, 1983). Based on such reasons, the literature argues that host country institutions have a profound effect on a firm's investment decisions.

In the literature, the concept of institutions exists in two forms; *the institutional profile* and *the institutional distance* (Jackson & Deeg, 2008; van Hoorn & Maseland, 2016). The institutional profile refers to the existence of a firm in an institutional environment and facing a set of peculiar challenges and opportunities in the context of that location; whereas the concept of institutional distance refers to the extent of similarity (or dissimilarity) between the home and the host countries.

The institutional profile perspective generally argues that well-developed host country institutions encourage firms to undertake risks by reducing the cost of ambiguity and uncertainty. Being an outsider, MNEs already suffer from higher asymmetric costs compared with insiders (Mariotti & Piscitello, 1995). To make it worse, weak institutional support is considered to have severe implications for achieving legitimacy, as it becomes difficult for MNEs to understand and interpret the host country environment. Although it is not possible for

all institutions to have a homogenous impact on firm internationalisation (Guler & Guillén, 2010a), the more substantial agreement among researchers is that the probability of FDI in a particular host nation reduces when there is poor/weak host institutional support (Coeurderoy & Murray, 2008; Delios & Henisz, 2003).

Institutional theorists who investigate the institutional distance construct believe that as the difference between countries increases, not only does it become difficult for MNEs to understand the requirements for seeking legitimacy in the host country, but their need for adapting or customising organisational practices also increases (Kostova, 1999; Kostova & Zaheer, 1999). Using this perspective, researchers suggest that the probability of FDI decreases with the increased institutional distance between the home and host nations (Berry, Guillén, & Zhou, 2010; Zhou & Guillén, 2015). IB researchers often use these distances as a proxy for gauging differences between the countries. For example, Ghemawat (2001) used the term C.A.G.E. distances (referring to cultural, administrative, geographic and economic differences) that firms must assess to ascertain the attractiveness of the host locations. Similarly, Berry et al. (2010) provide an assessment of other conceptualisations in the institutional distance concept, including financial distance, political distance, demographic distance, knowledge distance and global connectedness distance.

Despite such differences in how researchers present the institutions, the underlying theme of the three pillars of institutions (i.e. regulatory, normative and cognitive by Scott (1995)) consistently shapes the bedrock of their explanation. In the following sections, I use these three pillars of institutions as a distinguishing feature and provide a detailed review of each pillar and FDI location choice.

2.3.6.1 REGULATORY INSTITUTIONS

Shaped by multiple pressure groups, host country governments are motivated to observe and monitor foreign MNEs and evaluate whether these MNEs are aligned with their economic, political and social goals (Henisz & Zelner, 2005; Stevens, Xie, & Peng, 2016). Governments are tempted to alter policies to their advantage and, as they flex their muscle, MNEs may feel discouraged to invest and operate in such environments (Francis, Zheng, & Mukherji, 2009). The process and institutions through which governments implement their regulations, shape the regulatory environment of a country. In the context of location choice, regulatory

environments can be understood to exist on a spectrum - from being highly restrictive and regulated to be less restricted and regulated. Societies characterised by less restrictive mechanisms are considered welcoming and open to FDI. Such societies tend to introduce policies that support trust, with impartial and transparent legal systems (Bevan, Estrin, & Meyer, 2004; Guler & Guillén, 2010b; Holmes, Miller, Hitt, & Salmador, 2011; Root & Ahmed, 1978). Less-restrictive societies observe principles of the market economy as the level of government intervention is kept at a minimum. The resultant political stability in host nations tends to attract FDI (Loree & Guisinger, 1995; Mudambi, Navarra, & Delios, 2012). To promote FDI, governments also work to reduce the transaction costs by avoiding unnecessary taxes and bureaucratic processes, protecting intellectual and physical property, enforcing contracts and ensuring the primacy of the rule of law. Regulatory institutions in well-regulated countries promote opportunities, by allowing free flow of capital, the rule of law and promising a stable regulatory environment.

On the contrary, in countries where coercive mechanisms are restrictive, legal mechanisms are weak, governments are considered less effective, and regulatory and political hazards are high. Such countries are weak in enforcing the rule of law, and hence, their institutional environment acts as a deterrent for FDI (Du, Lu, & Tao, 2008). Also, preconditions like restrictions on investment limits, a majority (equity) control, capital flows, employment of locals, technology transfer, and local content requirements also influence the extent of incoming FDI (Ang et al., 2015; Chung, 2014; Sethi et al., 2002).

The risks that MNEs face are often characterised and represented in the various attributes of governance infrastructure, which include public institutions and policies created by the government for safeguarding its interests. World Governance Indicators (WGI) created by the World Bank include number of factors such as political freedom, civil liberties; political instability, terrorism, and violence; rule of law, crime, contract enforcement and property rights; level of corruption; extent of regulation and market openness (including tariffs and import controls); and government effectiveness and efficiency (Globerman & Shapiro, 2003; Kaufmann, Kraay, & Mastruzzi, 2009). These measures take a prominent role in the explanation of FDI decisions as they help to reduce country-specific transaction costs. Using such measures (in consolidated form or separately), researchers argue that countries with higher

levels of privatisation, private sector development and developed financial infrastructure receive more FDI (Bevan et al., 2004; Lu, Liu, Wright, & Filatotchev, 2014).

In line with the above, there is evidence to suggest that markets which enforce stronger intellectual property-rights laws attract more FDI (Coeurderoy & Murray, 2008; Jandhyala, 2013). In addition to this, countries that are comparatively less corrupt also benefit from higher proportions of incoming FDI (Cuervo-Cazurra, 2006; Godinez & Liu, 2015; Habib & Zurawicki, 2002). Likewise, governments that wish to attract FDI undertake economic reforms and engage in bilateral economic treaties (Albino-Pimentel, Dussauge, & Shaver, 2018; Grosse & Trevino, 2005; Jandhyala & Weiner, 2014; Khoury & Peng, 2011; Treviño & Mixon, 2004). The literature also suggests that when countries invest in their governance infrastructures, it not only attracts foreign investment but also creates an environment in which local firms can nurture and engage in capital investments abroad (Globerman & Shapiro, 2002; Holmes et al., 2011). Recently, Cordero and Miller (2019) also showed that government apparatus is critical in attracting FDI. However, when governments frequently influence changes in macro-economic policies or taxation, investors are discouraged (Delios & Henisz, 2003; Henisz & Macher, 2004; Mudambi & Navarra, 2003). Also, MNEs faced with such political uncertainty and regulatory hazards tend to achieve legitimacy by relying more on social considerations like following others' decisions (Henisz & Delios, 2001; Jiang et al., 2014) or by developing relationships with the host governments (Sidki Darendeli & Hill, 2016). In summary, the IB literature suggests that firms are encouraged to invest in beneficial environments, characterised by regulatory frameworks that foster fewer coercive mechanisms, more trust, and better technological, legal, financial and political institutions.

2.3.6.2 NORMATIVE INSTITUTIONS

The IB literature considers the national culture, values, norms and belief system in a given country to not only have a significant impact on investment decisions, but also on how firms perform (Dikova & Rao Sahib, 2013; Kanagaretnam, Lim, & Lobo, 2011). MNEs are considered highly vulnerable to attacks from local interest groups and thus face additional stereotypes and altered standards than local firms (Kostova & Zaheer, 1999). Their actions are deemed as legitimised only after passing through social scrutiny and ongoing interaction of norms. This forces MNEs to emphasise understanding the differences in managerial practices

and employee attitudes across the countries. As societal beliefs, norms and values are embedded in the national culture of a country, a prime challenge for MNEs is to achieve normative legitimacy in the host environment by overcoming any cultural distance between countries (Barkema & Vermeulen, 1997; Tihanyi, Griffith, & Russell, 2005). *Cultural distance* refers to the difference in the normative institutional environment between the home and the host country. Consequently, when countries are similar/closer to each other, then it is easier for firms to transfer routines, processes, capabilities and management styles. In addition to this, it is not only more convenient for foreign firms to implement their policies, but they also do not have to justify their actions (for seeking legitimacy) to local stakeholders (Francis et al., 2009).

Using this context, researchers mostly build on the cultural distance index compiled by Kogut and Singh (1988) using Hofstede's (1984) dimensions (power distance, uncertainty avoidance, masculinity/femininity, and individualism). IB researchers generally expect that when the cultural distance increases, attaining legitimacy becomes difficult, thus making firms less likely to invest (Kang & Jiang, 2012; Li & Guisinger, 1992; Loree & Guisinger, 1995). Despite the widespread use of the cultural distance construct, results on the impact of cultural distance on FDI are not consistent. For example; Benito and Gripsrud (1992) and Quer, Claver, and Rienda (2011) could not find significant results for the impact of (Kogut and Singh's (1988)) cultural distance on FDI. In addition to not being consistent, the construct of *Cultural distance* has also received significant critique from IB scholars, including Kogut and Singh (1988) and Mezias et al. (2002), for its inability to capture firm-level differences, which are considered more meaningful in explaining a firm's investment decisions.

In addition to the construct of cultural distance, various characteristics of informal institutions like collectivism, future orientation (Holmes et al., 2011), uncertainty avoidance and trust (Bhardwaj, Dietz, & Beamish, 2007; Flores & Aguilera, 2007) are also expected to influence the flow of FDI negatively. The underlying argument in this stream of research relies on the host country's characteristics/conditions that promote or hamper FDI. For example, it is considered that future-oriented societies tend to plan for the long-term and focus on creating opportunities that encourage FDI (Holmes et al., 2011). Similarly, uncertain environments require more rules and regulations for effective operations and add to the existing liability of foreignness for investors. Likewise, the lack of trust also discourages foreign investors, as "low

trust-worthy" locations are considered unsafe and require additional rules and regulations to safeguard investments (Bhardwaj et al., 2007).

The literature also realises that when social relationships like historical or cultural ties and personal connections between the populations of home and host countries are common, it is easier for firms to gain legitimacy and chances of cross-border investments are higher (Buckley, Clegg, et al., 2007; Hernandez, 2014). For example; Galan and Gonzalez-Benito (2006) found that cultural and linguistic affinity is a key driver for Spanish investments into Latin America. Similarly, Quer et al. (2011) found that Chinese firms opted for locations which had a higher ethnic Chinese population. Likewise, Strange, Filatotchev, Lien, and Piesse (2009) argued that cultural, historical, and network linkages could play a pivotal role in determining the location choice of firms. The underlying argument in these findings is the inherent reduction in the liability of foreignness that investors realise when investing in normatively similar countries.

Despite mixed findings, the overview mentioned above suggests that when cross-national normative differences are substantial, psychic distances increase and informational costs soar. Consequently, the chances of a location being selected for FDI are reduced. One caveat in this relationship is the direction of differences (Godinez & Liu, 2015; Zhou & Guillén, 2015), which also refines the theoretical arguments in favour of a negative relationship between normative distances and FDI. In a similar vein, the literature shows that when various cultural bridges like common networks, linguistic affinity, and ethnic similarity exist, they can help MNEs overcome normative differences and achieve legitimacy in host countries (Hernandez, 2014; Jean, Tan, & Sinkovics, 2011; Shukla & Cantwell, 2018).

2.3.6.3 COGNITIVE INSTITUTIONS

According to the institutional theory, to achieve cognitive legitimacy, firms mimic the practices of more legitimate actors (DiMaggio & Powell, 1983; Haunschild & Miner, 1997; Lieberman & Asaba, 2006). The search for legitimacy and reduction in environmental ambiguity are the primary reasons behind imitative behaviours (Ordanini, Rubera, & DeFillippi, 2008). While firms develop meaning from the strategies of other players, from an IB perspective, the notion of mimicking isomorphism results in following the actions of others who have already taken decisions in the context of the host markets.

IB researchers posit that firms face informational constraints in their FDI location decisions. The resulting uncertainty can stem from multiple reasons, including managerial inability to assign a probability of success in the target location, and instability in the host location's political and economic environment. In the absence of other informational resources, the relevance of such social indicators (like other firms' decisions) become critical when investing firms fear excessive governmental interference (Csaszar & Siggelkow, 2010). For interested firms, the decision to mimic investments in target locations provides legitimacy to their actions (Henisz & Delios, 2001; Li et al., 2015). Moreover, when firms follow other firms from their home country, the home-based comradeship also allows them to share tacit knowledge and relevant information about the target location at post-investment stages, thus especially encouraging young and inexperienced firms to follow others (Belderbos, Olffen, & Zou, 2011; Tan & Meyer, 2011).

Following the prior FDI decision of other firms is seen as a source of legitimising managers' actions and helps to reduce the negative impact of increased institutional and informational challenges when investing abroad (Jiang et al., 2014; Zhu et al., 2012). However, as firms gain experience, they develop internal knowledge resources to cater to institutional challenges of their target locations, and hence their reliance on other firms decreases. The growing evidence supports that the tendency to imitate other firms' location choices decreases as a firm gains host country (Belderbos et al., 2011; Henisz & Delios, 2001; Li et al., 2015) and international experience (Kim, 2013). Despite the literature's focus on the construct of *experience*, the role of managerial experience is still under-researched in the context of mimicking isomorphism.

Recent research on FDI location decisions suggests that firms mimic different *reference groups* – a title suggested for firms being followed for target locations (Csaszar & Siggelkow, 2010; Li et al., 2015). Based on the imitation typology as suggested by Haunschild and Miner (1997), i.e. frequency, trait and outcome-type imitations, various scholars have argued for the existence of reference groups based on all three categories. The most frequently studied reference groups in FDI location decisions are firms from the same home country (Henisz & Delios, 2001; Jiang et al., 2014), same industry (Chang & Park, 2005; Guillén, 2002) and same business group (Bastos & Greve, 2003; Kim, 2013). Other reference groups include global and local industry (Chan, Makino, & Isobe, 2006), size, status and recentness of firm entries

(Belderbos et al., 2011), early movers and late comers (Zhu et al., 2012), home country categorisation i.e. firms from developed vs emerging countries (Csaszar & Siggelkow, 2010), firms with higher market shares (Gimeno et al., 2005), firms with more experience (Li et al., 2015) and more visible and successful firms (Fourné & Zschoche, 2018). The literature suggests that firms not only tend to mimic various reference groups, but they also tend to utilise board interlocks for gaining indications about possible investment locations (Bastos & Greve, 2003; Tuschke, Sanders, & Hernandez, 2014).

It is essential to mention that researchers who investigate the cognitive dimension of institutions have integrated the organisational learning perspective to explain the imitative behaviour of firms (Jiang et al., 2014; Li et al., 2015; Li, Yang, & Yue, 2007; Tuschke et al., 2014). The organisational learning perspective suggests that as an alternative to experiential learning, firms tend to learn vicariously by imitating or avoiding specific actions, especially when they face uncertainty (Baum & Ingram, 1998; Haunschild & Miner, 1997; Kim & Miner, 2007; Starbuck, 2009). In the context of location choice decisions, the uncertainty that is driven by a firm's lack of knowledge about the host country compels firms to gauge the munificence of the environment by observing the actions of their peers (Bastos & Greve, 2003; Guillén, 2002). The literature, therefore, suggests that firms tend to follow the FDI location decisions of others, not just because their managers are seeking legitimacy (by following others) but also because their managers are substituting their cognitive deficiencies by learning from others (Henisz & Delios, 2001; Sun & Wen, 2007).

Researchers also recognise that there are limits to how much a firm would follow other firms' footsteps in location decisions. These authors find the argumentation for this behaviour in organisational learning, economic geography and organisational rivalry literature. They suggest that as a munificent location gets crowded with firms from the same industry, the expectations of competition may supersede the marginal positive outcomes of co-locating. Hence, after reaching an inflecion point, the negative network externalities can outweigh the positive externalities; thus, reducing the imitative behaviour among firms (Chan et al., 2006; Chang & Park, 2005).

2.3.7 EXPERIENTIAL LEARNING AND FDI LOCATION CHOICE

The field of IB considers *international experience* as a capability that firms can develop by learning and accumulating internationalisation knowledge. With experience in different institutional environments, firms develop a capability to assess and negotiate with institutional peculiarities and challenges. Experiential learning allows MNEs to foster superior capabilities that facilitate them to meet the legitimacy requirements in a better way (Barkema & Vermeulen, 1998). This mechanism explains that as firms continue to operate in foreign environments, they learn routines and heuristics to deal with distant and unfamiliar rules, regulations and cultures. In this way, experienced MNEs acquire confidence in their ability to mitigate public and private operational hazards, gauge legitimacy requirements, and develop effective strategies for host markets (Delios & Henisz, 2003).

In line with the arguments mentioned above, firm experience occupies a central space in IB literature, and many research studies have argued for its role in location selection decision (Guillén, 2002; Hong & Lee, 2015; Li et al., 2015). Research suggests that as firms accumulate learning through previous investments, they can overcome the disadvantages related to foreignness (Chang, 1995). The research is increasingly providing evidence that with diverse and country-specific experiences, the propensity to enter more distant markets increases (Erramilli, 1991; Terpstra & Yu, 1988).

Although the literature argues for the role of various types of experiences, this review suggests that the most common argumentations exist for the host country and international experience. When investing in a foreign location, the role of prior experience in the same country is monumental (Davidson, 1980; Li et al., 2015). When firms are already present in the host country, their ability to gain legitimacy with future investments heightens. Since the firms have experience in managing institutional constraints, they feel confident in their ability to handle any future institutional challenges as well. Consequently, with prior host country experience, firms find it easier to gain legitimacy with additional investments (Li et al., 2015). Therefore, prior host country presence is likely to positively influence future investments of the focal firm (Chung & Song, 2004; Hennart & Park, 1994).

In addition to the host country presence or experience, the research also suggests that as firms gain international experience, their ability to invest in other foreign markets increases

(Terpstra & Yu, 1988). In a study on US-based firms, Erramilli (1991) found that with diverse international experience, firms were likely to make investments in countries which were culturally dissimilar to their home countries. Likewise, in a study on venture capital (VC) firms, Guler and Guillén (2010b) showed that when firms internationalise, their international experience weakens the negative consequences of the host institutional environment. Such pieces of evidence point towards the learnings that firms accrue because of international experience.

The effects of learning are not just limited to the international experience or host countries but are also applicable in other contexts like learning in countries with weak institutional support and experience in countries with similar (to host) institutional environments. The literature suggests that as firms gain experience, which is similar to the institutions in the host countries, not only can they reduce the information acquisition costs, but their chances of survival also increase (Mariotti & Piscitello, 1995; Perkins, 2014; Shaver, Mitchell, & Yeung, 1997). Additionally, with experience, firms develop an ability to detect and safeguard against opportunistic behaviour and thus mitigate public and private hazards (Delios & Henisz, 2000). In this regard, experience in poor institutional environments is of significance, as it develops a capability to surmount similar challenges in later investments and makes firms more resilient to institutional challenges. The evidence for learning from and investing in such environments exists for countries characterised by political hazards (Delios & Henisz, 2003; Holburn & Zelner, 2010), lack of the rule of law (Jandhyala, 2013) and poor legal conditions (Coeurderoy & Murray, 2008).

The literature also supports the role of a firm's experiential learning through multiple sources. For example, Hong and Lee (2015) investigated the internationalisation of Korean firms and found that joint venture (JV) experiences at home (with foreign firms) were influential in later investments. Similarly, support from home and host country institutions is considered to compensate for experience, when firms directly lacked other sources of international learning (Lu, Liu, Wright, et al., 2014). In addition to the effects of institutional challenges at home, firms' location choices are also influenced by home governments policies, ownership and the desire to internationalise in different countries (Wang, Clegg, & Kafouros, 2009; Wang, Hong, Kafouros, & Boateng, 2012; Wang, Hong, Kafouros, & Wright, 2012). Moreover, IB scholarship has increasingly started to identify the role of multiple dimensions

of experience in location choice, e.g. breadth (diversity), depth (experience within an industry) and length (time spent at a particular location) of experience (Dimov & Martin de Holan, 2010; Zhou & Guillén, 2015).

2.3.8 NETWORK, SOCIAL TIES AND FDI LOCATION CHOICE

In addition to various other viewpoints that explain FDI location choice, the network and social ties perspective also exist to explain why firms select specific locations. This perspective argues that firms leverage their network relationships and social ties as a mean to overcome their liability of foreignness (Holm, Eriksson, & Johanson, 1996; Makino & Tsang, 2010). These network ties can exist at the country, organisational and individual levels. They can help to explain how firms gain legitimacy and support from their network at home and abroad and accordingly, select locations for FDI.

The literature divides network ties into formal and informal ties (Makino & Tsang, 2010). *Formal ties* refer to agreements and alliances announced between corporations, governments or supra-national organisations. Examples of governmental ties can include bilateral agreements for trade, alliances with economic partners and membership agreements with organisations like the World Trade Organization (WTO) or Trans-Pacific Partnership (TPP). The underlying argument here is that with an increase in cooperative arrangements between the actors (countries or organisations), the probability of investment rises (Nigh, 1985). Literature shows that firms tend to leverage these formal linkages in order to select host locations. Li, Meyer, Zhang, and Ding (2018) showed that Chinese firms with political ties were better able to exploit diplomatic relations between home and host governments. These firms had higher chances of FDI, because of their better access to information, lower political risks and achievement of legitimacy at host locations. Since home-country based network advantages are accessible for specific locations, firms also develop capabilities to cater for their absence. For example: Albino-Pimentel et al. (2018) suggested that although firms are in general sensitive to bilateral investment treaties among countries, firms with non-market capabilities can compensate the absence of such arrangements in their FDI decisions.

In addition to formal ties, the literature also supports the use of informal ties in location choice. *Informal ties* refer to relationships that exist because of social, ethnic, colonial and cultural connectedness between actors of economic activity (Makino & Tsang, 2010). Shared

nationality and diaspora are social resources that encourage firms to invest in particular locations (Hernandez, 2014; Shukla & Cantwell, 2018; Terpstra & Yu, 1988). The presence of such relationships is significant, as it also provides access to tacit knowledge and helps to gain legitimacy in the host market, thus increasing the probability of FDI (Makino & Tsang, 2010; Strange et al., 2009; Zaheer, Lamin, & Subramani, 2008). The importance of these relationships becomes even more critical when firms perceive host institutions as weak and use these social ties to overcome liabilities of outsider-ship (Tan & Meyer, 2011). In addition to this, by investing in countries that share a similar culture or language, firms tend to draw on similar customer and management practices. Using this context, Galan and Gonzalez-Benito (2006) observed that shared language was a major factor that determined the location choice decision of Spanish firms investing in Latin America. Recently, Hernandez (2014) provided evidence that the concentration of immigrants in the US, explained the incoming FDI from immigrants' home countries. The use of social resources is not just limited to immigrants, as Jean et al. (2011) showed that firms preferred to invest in locations where top managers enjoyed personal ethnic ties. Realising the advantages that networks accrue, Guler and Guillén (2010a) also showed that firms with social status (in the home network) use this as a resource to signal quality in host location networks. By investing in countries where such advantages can be exploited, firms show a clear preference for network advantages in FDI location choice decisions.

Research shows that firms also tend to leverage upon the network advantages at host locations, to compensate for lack of knowledge and resources at home. In this context, the network linkages in the host countries are of paramount importance and seen as opportunities to be exploited. Consequently, a firm's choice of location is seen as a function of its decision to enjoy certain network advantages and redeem benefits at host locations. Research by Jean et al. (2011) suggests that network linkages at the host country level also help to encourage FDI as firms can gain access to complementary capabilities and create synergies for realising economic benefits. Chen (2003) also provides evidence that Taiwanese firms preferred to invest in locations that were either rich in network resources or were closer to other such locations. In a nutshell, the literature recommends that firms use FDI as a means to gain access to a network and other resources at host locations.

2.3.9 HOME COUNTRY AND FDI LOCATION CHOICE

Shaped by various phenomena, the literature realises that home countries influence not only the trade but also the FDI location decisions of the firm. While reviewing the role of home countries in IB research, Cuervo-Cazurra, Luo, Ramamurti, and Ang (2018) suggest that FDI provides an opportunity to the company to utilise its competitive as well as its comparative advantages that accrue because of the home base. The recent surge in the use of home country-related constructs highlights the importance of how companies use their national origin as an advantage for overseas expansion (Li et al., 2018; Stucchi, Pedersen, & Kumar, 2015; Sun, Peng, Lee, & Tan, 2015).

The home country plays a prominent role in firm internationalisation, mostly because of the development-level of its institutions. Firms that face weak institutions at home are encouraged to invest in countries with better institutions (Guler & Guillén, 2010b; Jandhyala, 2013; Jiang et al., 2014). In addition to the firms that escape to countries with better institutions, home-hardened firms also are well prepared to take on challenging environments in host countries. These firms, use their resilience (against weak institutions) as an advantage against other firms in the host country (Cuervo-Cazurra et al., 2018). The IB literature reinforces these arguments in many contexts (such as the rule of law, corruption, and political uncertainty) and suggests that firms seek riskier investments to leverage the capabilities learned at home (Godinez & Liu, 2015; Meyer & Thein, 2014). In this regard, there is increasing evidence in the FDI location choice literature that shows the effects of the home country environment. For example, Holburn and Zelner (2010) showed that firms with politically riskier institutions at home develop capabilities to deal with political and institutional risks. Similarly, firms from highly regulated industries at home are also encouraged to invest in countries with higher levels of political and economic uncertainty (García-Canal & Guillén, 2008). Likewise, the literature also shows that firms that emerge from corrupt countries have learned how to deal with corrupt practices and therefore are not discouraged by corrupt environments in host countries (Cuervo-Cazurra, 2006; Godinez & Liu, 2015).

In addition to the above, home country international relationships also influence the flow of FDI. In this context, Li and Vashchilko (2010) showed that where military conflicts between (high and low income) countries reduced the probability of investment, security

alliances promoted the probability of investment within country dyads. Parallel to this argument, Li et al. (2018) showed that firms had a preference for investing in countries with good diplomatic relations.

2.3.10 TOP MANAGERS AND FDI LOCATION CHOICE

With increasing globalisation and internationalisation among MNEs, there is immense pressure on top managers to identify global opportunities and play a prominent role in the successful internationalisation of the firm. Organisations learn through the knowledge which resides within its employees (Simon, 1991). In this regard, personnel-related flows of information are critical for organisations to gain new information and retain the existing stocks of knowledge (Madsen, Mosakowski, & Zaheer, 2003). The literature realises that it is the interaction of employees that generates the flow of information and results in creating competitive advantages for the firm (Argote & Ingram, 2000). The evidence for this perspective is also present in the microfoundations literature, which suggests that individuals are the real bases of organisational strategy and various organisational routines and practices are a reflection of the employees that make those decisions (Felin & Foss, 2005; Felin & Hesterly, 2007; Simon, 1991). Using these insights, there is literature to emphasise the role that CEOs (Chittoor, Aulakh, & Ray, 2018; Kunisch, Menz, & Cannella Jr., 2018), TMTs (Maitland & Sammartino, 2015a, 2015b) and board members (Ang et al., 2018; Tuschke et al., 2014) play in internationalisation decisions of the firm.

In addition to the microfoundations literature, the works of Hambrick and Mason (1984), Bantel and Jackson (1989) and Wiersema and Bantel (1992) also build a strong base for the increasing role of upper echelons in the internationalisation decisions of firms. IB researchers have identified multiple contexts where managerial experiences and cognition play a significant role. In this regard, some of the most prominent outcomes where top managers exert their influence include: the extent of internationalisation (Reuber & Fischer, 1997; Tihanyi et al., 2000), global strategic posture (Carpenter & Fredrickson, 2001; Levy, 2005), export intensity (Agnihotri & Bhattacharya, 2015), entry modes (Herrmann & Datta, 2002, 2006; Nielsen & Nielsen, 2011), international alliance formation (Lee & Park, 2008), and foreign expansion (Barkema & Shvyrkov, 2007). Despite the extant use of TMT characteristics in the literature, the role that TMT experiences and diversities play in connection with the

foreign location choice decisions remains under-researched. As already stated, FDI location choice literature is convoluted and borrows heavily from IB literature in other domains, including, internationalisation and entry mode. Bearing this in mind, the following paragraphs provide a brief review of how the characteristics of top managers have shown to influence the FDI location choice decision.

The way managers make final selections of locations for FDI is a complex process. Buckley, Devinney, and Louviere (2007) investigated whether managers decided in line with predicted theories. To their surprise, the results showed inconsistencies between theoretically predicted decisions and (experimentally designed) location decisions made by top managers. However, what makes this area more interesting is the fact that managers alone do not make decisions (in an individual capacity), it is the teams that make the high-risk decisions to invest in a particular country or not. Barkema and Shvyrkov (2007) addressed this by bringing in the role of top managers in foreign expansion decisions. The authors showed that firms with more diverse teams were expected to go beyond the familiar home and host locations and select distant places for investments.

Managers not only learn through their experiences but also through their ties. Evidence from Tuschke et al. (2014) suggests that board directors' direct and indirect experiences with firms engaging in international expansion brings useful knowledge, which firms can use in their own location choice decisions. In the larger scheme of things, Tuschke et al. concluded that organisational learning was not only a function of vicarious learning but also of the authority possessed by the individuals who bring that information to the firm. In addition to formal ties (board interlocks), informal ties (like ethnic associations) also seem to influence the investment decisions of the firm. For example; Jean et al. (2011) showed that Taiwanese managers preferred to invest in locations where they enjoyed ethnic ties with the local populace.

Research also identifies that top managers develop heuristics by gaining experience in politically hazardous environments and use their mental and cognitive models to assess new information for the selection of new locations (Maitland & Sammartino, 2015a). In addition to this, building on the *Awareness-Motivation-Capability* framework, Cui, Meyer, et al. (2014) suggested that experienced managers not only help in making firms more aware of their

competitive positions but also help in motivating other managers to exploit their experiential resources. Moreover, such capable (and experienced) managers also allow firms to identify catch-up opportunities in other locations, thus influencing their location choices. Other factors that influence the FDI location choice decision include the hassle factor that managers perceive in investment decisions. Hence, perceived long travelling times and poor living conditions in certain countries, deter managers from investing (Boeh & Beamish, 2012; Schotter & Beamish, 2013).

2.4 THE LITERATURE ON UPPER ECHELONS

The substantial literature on the upper echelons has been rigorously tested in various contexts. After its introduction in Hambrick and Mason's (1984) seminal article, upper echelons research has not only been subject to intense scrutiny but has also expanded to incorporate new dimensions. The upper echelons literature suggests that top managers' career and experience backgrounds influence how they identify problems and process information, and what kind of decisions they make (Hambrick & Mason, 1984). As researchers try to relate TMT traits with receptivity to change and willingness to take risks, the diversity of traits has been linked to a variety of information sources, different perspectives and creative/innovative decision making (Boeker, 1997b; Wiersema & Bantel, 1992). With these insights in mind, researchers highlight the use of diversity-related constructs to influence many firm-level decisions (Harrison et al., 1998; Pelled, 1996).

The rich context that upper echelons provide has helped to push management research to new boundaries. In this context, researchers have not only examined various characteristics like international experience, political affiliations, and nationality (Daboub, Rasheed, Priem, & Gray, 1995; Nielsen & Nielsen, 2013; Sambharya, 1996), but also the concept of diversity among various attributes like tenure, age, education and functional background etc. (Hambrick et al., 1996; Tihanyi et al., 2000; Wiersema & Bantel, 1992).

In order to determine the relevant TMT-related variables for this research, I refer to the concept of *job-relatedness* of diversity (as explained in Section 2.2.4.2). While this perspective helps to unlock the outcome of diversity, it also distinguishes between work-related attributes (like experience, education and function) and non-work-related attributes (like age, gender and race). A review of FDI related studies suggests that work-related attributes are most relevant

in internationalisation decisions. For example, the internationalisation literature frequently discusses the role of international experience, tenure, and educational backgrounds but not that of age and gender. In addition to this, a group of top managers (while selecting an international investment location) is less likely to be influenced by the gender or personal traits of their colleagues. Therefore, I restrict my research to the role of work-related attributes. In addition to this categorisation, I also realised that certain attributes of TMTs, for example, *'nationality'* is not easily detectable in a sample of US-based firms. Likewise, one would require either access to participants or databases for other characteristics like *TMT's political inclinations* or *TMT's social ties* in foreign locations. Since this sort of data was not available, therefore, I limited the scope of my thesis to the attributes for which the data was reliably accessible through annual reports and other secondary sources. Using these insights, I only considered the variables of *TMT international experience*, *TMT international experience diversity*, *TMT tenure diversity*, *TMT education diversity*, and *TMT functional diversity* for testing their interaction with institutional mimicking in foreign entry.

Similar to the review exercise for FDI location choice, I started this review by consulting the upper echelon review articles (Carpenter et al., 2004; Homberg & Bui, 2013; Horwitz & Horwitz, 2007; Liu, 2017; Nielsen, 2009) and later conducted independent searches in electronic databases and top-journals, using various TMT variables as keywords. The keywords included *"Top Management Teams"*, *"TMT international experience"*, *"TMT education"*, *"TMT tenure"*, *"TMT functional background"* and *"TMT age"*. Following sections provide a review of relevant TMT-related constructs.

2.4.1 TMT INTERNATIONAL EXPERIENCE

Managers' experience shapes their values, backgrounds and assumptions, and thus acts as a key resource for firms. Top managers' international experience through tenure or education abroad is likely to influence their belief system, which helps them to interpret the environment and suggest strategic outcomes. The international assignment experiences help managers to develop perspectives on how to deal with international norms, cultures and regulations (Carpenter, Sanders, & Gregersen, 2001; Maitland & Sammartino, 2015b). Prior exposure to different countries increases their ability to make better sense of internationalisation opportunities (Lee & Park, 2008). Cognitive development occurs throughout managers'

assignments as they gain international experiences and draw on these to simplify future problems and scenarios. Managers with international experience are exposed to unknown cultures, new competitors, strange and complicated environments. These countries might be characterised by unique sets of political, economic, legal and cultural conditions. Hence, managers who have spent time on assignments abroad, develop a cognitive schema that helps them to settle swiftly in future foreign environments (Levy, 2005; Takeuchi, Tesluk, Yun, & Lepak, 2005). Sambharya (1996) provided initial evidence to show that more international experiences among TMT members and heterogeneity of such experiences are positively associated with international diversification of the firm. Later investigations by Tihanyi et al. (2000), Peyrefitte, Fadil, and Thomas (2002), Athanassiou and Nigh (2002) and Tan and Meyer (2010) came to the same conclusion. The literature also supports a positive relationship between international experience and the global strategic posture of the firm (Carpenter & Fredrickson, 2001).

In addition to the time spent abroad, previous successful global strategic decisions like acquisitions may also add to TMT learning (Nadolska & Barkema, 2014). Therefore, various opportunities to interact with foreign partners and institutions act as a knowledge bank that assists in future decision making. The multi-geographic and internationalised nature of MNEs also impacts the behaviour of its top managers. Athanassiou and Nigh (2000) showed that managers of firms which actively engaged in internationalisation not only got more opportunities to learn through their foreign experiences but also preferred to meet in a face-to-face setting to transfer the explicit and tacit knowledge gained through their assignments abroad. These enhanced knowledge structures and mental models allow them to deal with the heightened uncertainty and complexity of cross-border investment decisions (Herrmann & Datta, 2005, 2006; Peyrefitte et al., 2002).

The literature also suggests that managers with international experience are not only positively associated with firm internationalisation but are also instrumental in forming international alliances (Lee & Park, 2008). These managers develop this ability as during their tenures abroad, as they hone their negotiation skills and learn to reduce conflict with potential foreign partners. The positive effect of TMT's international experience on the mode of governance is not just limited to international alliances. Nielsen and Nielsen (2011) suggested

that teams with higher international experience are confident enough to opt for more riskier options like full-control entry modes.

Managers with international experience not only engage more with foreign partners, but also impact revenue-generation capabilities in foreign markets (Daily, Certo, & Dalton, 2000; Reuber & Fischer, 1997). Firms with internationally experienced managers can enhance their global strategic postures and perform better than others (Carpenter & Fredrickson, 2001; Hutzschenreuter & Horstkotte, 2013). Similarly, there is evidence to show that managers with international experience tend to be less conservative and increase the export performance of firms (Agnihotri & Bhattacharya, 2015). These managers with international experience also act as a source of sustainable competitive advantage for the firm (Carpenter et al., 2001; Carpenter, Sanders, & Gregersen, 2000). This mechasnism becomes possible as these managers not only have knowledge about foreign operations of the firm but also prepare the next level of managers to take on the expat and leadership roles in foreign locations.

In addition to the length of international assignments, experience in different countries also allows managers to acquire context-based knowledge that is embedded in different regulative and normative routines. Maitland and Sammartino (2015b) utilised the concept of *depth*, *breadth* and *variety* in the types of international experiences that managers may encounter and showed that managers with higher international experience not only had the depth of internationalisation knowledge but were also able to draw connections between various aspects of internationalisation strategy.

Among the various studies that explore the role of international experience, Lee and Park (2006) also investigated the non-linear impact of TMT international experience diversity and other work-related diversities on firm internationalisation. Lee and Park's (2006) argument suggested that the positive effect of international experience and other variables would reverse after reaching an inflection point, as too many differences among the managers would result in a conflict-like situation and hamper group decision making. Their results showed that international exposure diversity among TMT members was positively related to firm internationalisation. However, support for curvilinear effects was not found.

2.4.2 TMT TENURE

Tenure refers to the amount of time that managers have spent in the work unit. It is expected to have a wide-ranging effect on an employee's attitude and behaviour. With increasing tenure within work-units, members gain unique experience, skills, networks and viewpoints. Managers who have similar tenures within organisations are expected to have better communication with each other (Zenger & Lawrence, 1989). The values and beliefs that managers develop because of the lengths of their tenure tend to have a profound influence on the way they make decisions (Finkelstein & Hambrick, 1990; Zenger & Lawrence, 1989). This review of the upper echelon literature suggests that researchers consider a manager's tenure as a proxy either for her risk-taking abilities or embedded knowledge resources. The following paragraphs provide a review on each perspective.

The length of tenure is considered a sign of a manager's willingness to opt for risky and out-of-the-box decisions. While comparing managers of different tenures, Bantel and Jackson (1989) showed that longer tenures tend to restrict managers' abilities to process new information and hence were negatively associated with innovation in the banking industry. Upper echelon researchers believe that longer-tenured managers lack creativity and suffer from the scarcity of new ideas. As such managers become committed to the status quo, they tend to stick to the traditional wisdom and become reluctant to alter from their standard *"bag of tricks"* (Chaganti & Sambharya, 1987; Williams, Hoffman, & Lamont, 1995). Consequently, managers who have spent a long time in companies tend to rely on existing strategies and industry norms. In addition to this, as managers become more senior and become part of TMTs, they have higher stakes associated with their well-established positions and hence ignore risky ventures. Likewise, legitimacy pressures on established and long-serving managers are low, and hence, they have fewer incentives to invest in uncertain options (Kor, 2006). With a narrowing view of strategic options, longer-tenured managers are likely to be risk-averse and resistant to strategic changes (Boeker, 1997b; Finkelstein & Hambrick, 1990; Wiersema & Bantel, 1992). On the other hand, TMT members with short tenures generally have a good understanding of the company's requirements as they have recently graduated from an operational role. These managers need to establish their reputation and show their performance; they may opt for out-of-the-box solutions (Miller, 1993a). With higher risk-appetite, newly

acquired team members are also associated with higher growth levels within firms (Williams, Chen, & Agarwal, 2016) and preference for strategic changes (Boeker, 1997a).

Here, it must be observed that the effect of tenures may not be unconditional. Some researchers like Keck (1997) argue that the effect of duration of tenure is contingent upon the context. Therefore, short-tenured teams are considered better in more turbulent environments, whereas long-tenured teams are better for more stable environments. According to Keck, the reason for this differentiation is the fact that short-tenured teams provide new ideas and bring a host of problem-solving skills to the team. In contrast, the longer-serving teams provide stability and social cohesion (Katz, 1982); hence, they are more productive when conditions are stable.

IB researchers who argue for the risk aversiveness perspective suggest that with increasing tenure, the inclination of top managers to invest in foreign locations decreases (Herrmann & Datta, 2005). The underlying argument is that as risk aversion increases among managers, they become complacent with domestic investments. More dynamic short-tenured managers are more interested and show more flexibility and acceptability towards uncertain overseas options. For these reasons, top managers with long tenures are negatively associated with FDI decisions.

The upper echelon researchers also tend to suggest that tenure is a representation of a manager's knowledge resources. IB researchers also tend to identify and establish the link between TMT tenure and internationalisation decisions. According to researchers who opt for the learning curve perspective: with increasing tenure, managers gain intricate knowledge bases which can assist in their internationalisation decisions. For example: Tihanyi et al. (2000) argued that with increased tenure, members develop abilities to assess firm international opportunities better. Consequently, longer tenures are positively associated with a firm's international diversification. Using similar arguments, Peyrefitte et al. (2002) showed that members with longer tenures were competent in making choices and therefore, opted for higher levels of internationalisation. Knowledge bases gained over time help managers decide how to utilise a firm's resources optimally. Investigations in other contexts like the implementation of an organisational structure, by Williams et al. (1995) also indicated the existence of a

relationship between TMT tenure and quicker implementation of changes. These results reinforce the idea that with longer tenures, top managers are better able to cope with changes.

Upper echelon research realises that long tenures among members of TMTs are also a source of social cohesion, as with time, the tendency to challenge a fellow member reduces. With increasing tenures, teams develop their code of conduct and communication patterns. As a result, such teams become highly stable and isolated from information signals, that might influence members' decision making (Katz, 1982). With time, such teams continue to interact and engage in positive ways, even when faced with vulnerable situations. As a result, it is argued that the effect of demographic diversities on conflict reduces with increasing tenure (Harrison et al., 2002; Pelled, 1996). By using parallel arguments, Nielsen and Nielsen (2013) were able to show that increased tenure in teams helped them to overcome the adverse effects of differences in nationalities, and consequently, the performance of the firm improved.

It must be acknowledged that not all researchers posit a linear effect of TMT tenure. For example, Agnihotri and Bhattacharya (2015) argued for a curvilinear relationship between increasing tenure and export intensity. In their opinion, the positive effects of the learning curve decline after an inflection point, as risk aversiveness sets in. On similar lines, Williams et al. (1995) also investigated the impact of TMT tenure on the implementation of the M-form organisational structure. They also argued for a curvilinear relationship between TMT tenure and implementation time but could not find support for this relationship.

Given the logic of differences in the impact of long and short tenures, upper echelon researchers consider the diversity of tenures in TMTs as a critical source of varying opinions within the team. The underlying question in considering the output of TMT tenure diversity is parallel to other TMT-related variables, i.e. whether the diversity contributes positively to the cognition of the team or if it results (negatively) in conflict and turnover? In the following paragraphs, I provide a review of different research articles that have advocated for the role of TMT tenure diversity in decision making.

Upper echelon researchers believe that differences of opinion that arise because of heterogeneity in tenure contribute to the cognitive schema of the team. Consequently, such authors advocate for a positive outcome of the tenure diversity on a host of decisions, like

strategic changes in the firm (Boeker, 1997b), number of innovations (Elenkov, Judge, & Wright, 2005) or performance (Carpenter, 2002; Zhang, Wang, & Wang, 2017).

Keeping in view the positive contribution of tenure diversity, Zhang et al. (2017) argued that higher TMT tenure diversity leads to better performance, as members bring a variety of opinions to the discussion table. The argument resides in the hypothesis that higher heterogeneity brings different perspectives, which are beneficial for the overall cognitive performance of the team and subsequently for the strategic changes that firms wish to opt for (Boeker, 1997b). Another essential characteristic of tenure diversity is that its higher levels do not necessarily lead to slower decision making. This statement is validated by Hambrick et al. (1996), who were able to show a positive relationship between the heterogeneity of tenures and action propensity (number of decisions in a time-period) of a firm's competitive actions.

In addition to the positive impacts of TMT tenure diversity, some research investigations have also established a connection between the adverse outcomes of tenure diversity like; team turnover and social breakdown. According to this perspective, the similarity in tenures ensures that group outcomes remain positive. The underlying assumption is that members try to establish communication channels with individuals who have joined the work unit at the same time, thus suggesting that the homogeneity of tenures influences open communication and consequently, heterogeneity would have the opposite effect (Zenger & Lawrence, 1989). Some other researchers from the same school of thought argue for a negative cognitive contribution by the tenure diversity. For example, Wiersema and Bird (1993) found that tenure diversity was associated with higher turnover among Japanese managers. Along similar lines, Pelled et al. (1999) established a connection between tenure diversity and emotional conflict, thus raising a concern that higher tenure diversity could lead to negative outcomes for the group. According to Pelled and her colleagues, the underlying reason for such a relationship could be the fact that managers find it difficult to identify themselves with others of varying tenures, and consequently, they fall prey to socially categorising fellow members within teams, hence depicting an unfavourable outcome and an emotional conflict.

Despite extensive research and various arguments for the positive and negative contribution of TMT tenure diversity, not all researchers have been able to establish the impact of TMT tenure diversity. For example: Bantel and Jackson (1989) set forth some of the earliest

examinations of TMT tenure on firm innovativeness. They predicted for both types of effect of tenure diversity. However, their results did not show support for either of the hypotheses. Similarly, Wiersema and Bantel (1992) also examined the effect of TMT tenure diversity on corporate strategic change, but could not find substantial support for their arguments. Likewise, Carpenter (2002) could not establish a direct relationship between tenure diversity and the performance of MNEs but instead suggested a time-contingent relationship which becomes effective in teams with higher levels of internationalisation.

Another perspective that exists to explain the effects of tenure diversity is the context in which the team operates. For example, Keck (1997) hypothesised that the effect of tenure diversity on performance would be conditional upon the environmental context. According to her, tenure diversity would become a negative influencer to the team cognition when conditions were stable, but a positive contributor to cognition and subsequently to financial performance when conditions were turbulent. The underlying argument in her research was the fact that team members become more responsive to each other when conditions are harsh. Her results, however, could not support the hypotheses. On similar lines, an investigation by Carpenter (2002) argued that teams take time to become fully functional and realise the benefits of tenure diversity. Later Hambrick, Humphrey, and Gupta (2015) examined the impact of tenure diversity on departure rates and firm performance. Their research supported the notion of context by emphasising that the effects of tenure diversity were conditional upon the extent to which each member was dependent upon others to operate. These investigations highlight that the outcome of tenure diversity is not expected in all scenarios and should be carefully positioned in a context.

The IB literature also supports the role of TMT tenure diversity in strategic decision making. IB researchers argue that with increasing diversity in tenure, managers bring cognitive and relational capital to the firm (Brown, Anderson, Salas, & Ward, 2017). With more cognitive horsepower, teams are expected to make decisions that can help them in uncertain situations. These diverse teams can think about foreign operations and strategies from a host of perspectives and thus overcome many challenges associated with international expansion. The overarching evidence from other TMT researchers strongly suggests the same. For example, Carpenter and Fredrickson (2001) argued in favour of the positive contribution of variation in tenure and hence showed that it has a positive association with the expansiveness

of the global strategic posture of the firm. Tihanyi et al. (2000) were able to establish a positive relationship between TMT tenure diversity and the international diversification of the firm. On a similar note, Nadolska and Barkema (2014) showcased that TMT tenure diversity influenced the success of new acquisitions. Along similar lines, Barkema and Shvyrkov (2007) contended that diversity in managers' tenures helps in the selection of a distant geographic location. Much like other contexts, Rivas (2012) also proposed a positive association between TMT and board tenure diversity and internationalisation. His results, however, indicated negative association and non-significant results for TMT and board tenure diversity, respectively.

2.4.3 TMT EDUCATIONAL BACKGROUND

Education is an indicator of the fundamental knowledge and cognitive resources embedded in an individual (Carpenter & Fredrickson, 2001). The amount and type of education received shapes personalities, attitudes and cognitive schemata of individuals and their strategic choices (Bantel & Jackson, 1989; Hitt & Tyler, 1991; Smart & Pascarella, 1986). Employees with new and existing knowledge stocks assist firms in the process of knowledge creation (Smith, Collins, & Clark, 2005). The literature, therefore, realises that individuals are bound to think and make decisions, based on their educational backgrounds and past curriculum choices. The two most dominant dimensions of education in literature are the length and the type of education received. The following sections categorise the literature based on length (or level) of education and the diversity in the type of education acquired.

Researchers consider that more education translates to flexibility, openness to change and innovation (Becker, 1970; Kimberly & Evanisko, 1981; Wiersema & Bantel, 1992). The link between training and adoption of innovations was established even before Hambrick and Mason (1984) provided the basis for the upper echelons theory (Becker, 1970; Kimberly & Evanisko, 1981). It was contended that the amount of education received by top managers is positively linked with their openness and acceptance of new ideas. The upper echelon theory utilised these arguments to suggest that the amount of education received serves as an indicator of the cognitive abilities and skill-set that a manager possesses. Consequently, managers with longer education histories gain the ability to analyse complex situations, process more information and enhance competitive behaviours (Hambrick et al., 1996). For the same reason, higher levels of education are associated with various team and firm-level outcomes like

innovation (Bantel & Jackson, 1989; Kimberly & Evanisko, 1981; Smith et al., 2005), different managerial-level decision making (Hitt & Barr, 1989), quicker decision making (Wally & Baum, 1994), quicker implementation of organization structures (Williams et al., 1995) and changes in corporate strategy (Wiersema & Bantel, 1992).

With the increase in flexibility and receptivity to change, highly educated managers are likely to engage in boundary spanning and demonstrate the complexity in the decision-making process (Kimberly & Evanisko, 1981; Williams et al., 1995). It is considered that managers will not only possess more tolerance for uncertainty and ambiguity but also have competencies for systematically seeking opportunities and evaluating new alternatives. Teams with highly educated members are not only associated with knowledge creation within the firm (Smith et al., 2005) but are also believed to have higher cultural capital, knowledge and expertise to assess international opportunities (Levy et al., 2014). Evidence in the literature strongly suggests that TMTs with higher levels of education are positively related to international diversification of the firm (Herrmann & Datta, 2005). On a similar note, Tihanyi et al. (2000) showed a positive relationship between elite education level and international diversification. Their argument was nested in the logic that higher levels of elite education result in openness and introduction to foreign cultures, thus being instrumental in internationalisation decisions. Among other IB related decisions, mixed support has been received for export-related decisions, where Agnihotri and Bhattacharya (2015) found a positive relationship between education level and export intensity, but Cavusgil and Naor (1987) could not establish the relationship between education level and export marketing.

In addition to the length of education gained, the heterogeneity of educational backgrounds that TMT members bring to the team has also been a subject of investigation. Upper echelon researchers believe that a group of top managers with various academic backgrounds will have diverse cognitive resources to utilise when they handle a problem. Educational backgrounds also influence the way top managers depict their self-interested behaviours while opting for various strategic alternatives (Daboub et al., 1995). As a result, it is expected that these (differently educated) managers will evaluate decisions differently and add to the cognitive muscle of the team (Barkema & Shvyrkov, 2007; Harrison & Klein, 2007; Wiersema & Bantel, 1992).

Upper echelon researchers have provided evidence to show that diversity in educational backgrounds influences many firm and team-level decisions and outputs. The overarching evidence suggests a positive contribution to the team's cognitive and heuristic resources because of the varying educational backgrounds of members. For example; it is argued that heterogeneity in educational backgrounds is positively associated with the firm's level of innovativeness (Bantel & Jackson, 1989), its capability to assess strategic alternatives (Hitt & Tyler, 1991) and its selection of corporate strategic changes (Naranjo-Gil et al., 2008; Wiersema & Bantel, 1992).

IB researchers have also realised that the cognitive additions because of educational diversity help the team refine their assessment of international opportunities. For this reason, it is argued that the diversity of education in TMTs is positively related to the extent of internationalisation (Lee & Park, 2006), international diversification (Tihanyi et al., 2000), global strategic posture (Carpenter & Fredrickson, 2001), and the success of new acquisitions Nadolska and Barkema (2014). In addition to the direct effects of TMT education diversity, the literature also claims that TMT education diversity adds to the performance of the firm at various levels of internationalisation (Carpenter, 2002).

Although the heterogeneity of educational backgrounds can be a positive influencer for the cognitive abilities of the team, however, it has been found to have compromising effects on the efficiency of the team in specific contexts. A few researchers have argued that this could be because managers with different educational backgrounds can take longer to develop routines and decide the outcome. Evidence from Nadolska and Barkema (2014) suggests that although TMT education diversity significantly enhances the success of new acquisitions, at the same time, it reduces the speed of acquiring new firms. Parallel to this, an investigation by Hambrick et al. (1996) found a negative relationship between educational background heterogeneity and the execution speed of strategic decisions.

In addition to the adverse effects on the efficiency of a job at hand, a few researchers like Wei, Lau, Young, and Wang (2005) have argued for the adverse effects of TMT educational diversity on the performance of the firm. They have based their argument on the fact that differences in backgrounds lead to a conflict like situation, which may hamper group communication and decision making. Similarly, Wiersema and Bird (1993) found that

university prestige also enabled cohesion among top Japanese managers and acted as a predictor of members' turnover. Likewise, Knight et al. (1999) showed a negative relationship between educational diversity and strategic consensus among team members. Others like Yoon, Kim, and Song (2016) and Yang and Wang (2014) could not establish educational heterogeneity's relationship with organisational creativity and entrepreneurial strategic orientation, respectively. Likewise, Tihanyi et al. (2000) and Barkema and Shvyrkov (2007) could not find statistically significant effects of TMT educational diversity on international diversification and distant choice of location, respectively. Along similar lines, Nielsen and Nielsen (2013) could not find a statistically significant relationship between educational heterogeneity and firm performance.

2.4.4 TMT FUNCTIONAL BACKGROUND

Functional background refers to the departments or functions in which managers have spent most of their time. Managers tend to perceive various aspects of problems that relate to their departments/functions (Dearborn & Simon, 1958; Waller, Huber, & Glick, 1995). With different perspectives, top managers with distinct functional experiences contribute in their own ways towards achieving the organisational strategy (Daboub et al., 1995; Gupta, 1984). Therefore, managers who come from a similar functional background are likely to have similarities in cognitive representations and may prefer similar solutions (Hambrick & Mason, 1984). However, if managers come from different functional backgrounds, they are bound to bring unique perspectives to the table. Using these insights, upper echelon researchers realise the importance of various functional tracks and the heterogeneity that these tracks bring to the table. In the following sections, I present a review of various functional categories and the diversity of functional background.

Managers' experiences are said to influence the strategic orientation of firms (Chaganti & Sambharya, 1987; Lin et al., 2018). Researchers posit that since individuals work in a different type of functions, they develop a distinct orientation towards the firm, which is likely to influence their decision making. In this regard, Hambrick and Mason (1984) proposed that functional backgrounds could be arranged into various categories, namely; *output functions*, *throughput functions* and *peripheral functions*. Out of these categories, the output and throughput functions are based on the idea of the open-systems view. The concept of these

tracks rests on the assumption that output functions (marketing, sales and product R&D) emphasise growth, identify new opportunities and adjust product markets accordingly. Whereas, throughput functions (production, process engineering, supply chain and accounting) aim to improve efficiency in the value chain. In addition to the two categories mentioned above, the third category of peripheral functions (law and finance) includes managers who are not involved in a firm's core activities. Hayes and Abernathy (1980) suggested that managers in peripheral functions pursue strategies that fit short-term cost reductions rather than long-term development of technological competitiveness. Hambrick and Mason (1984) extended the concept and suggested that the extent (peripheral function) of managers' experience is related to the degree of unrelated diversification and administrative complexity in the firm.

The literature suggests that various categories of the functional background are positioned for unique outcomes. For example, managers with output functional backgrounds are argued to be more creative, especially in situations where means-end relationships are not clear (Datta & Rajagopalan, 1998; Hambrick & Mason, 1984). Similarly, executive migration (with output functions) from other firms in the industry is shown to help in subsequent new product markets entries (Boeker, 1997a). Based on similar logic, Daboub et al. (1995) argued that managers in technical fields such as engineering and accounting are likely to exhibit more lawful (institutionally constrained) behaviour, whereas output and peripheral functions could incite unethical behaviours. The notion of categorising functional track has also been studied by Herrmann and Datta (2005), who argued that the percentage of members with an output functional background is positively associated with international diversification, but they could not find statistically significant results. Williams et al. (1995) used similar logic to suggest that teams whose members had experience in management were quick in implementing organisational structural changes.

TMT functional diversity can be defined as; *"the degree to which TMT members differ with respect to their functional backgrounds"* (Qian, Cao, & Takeuchi, 2013, p. 110). Previous sections have shown that each member of the team brings a specific perspective, which is a reflection of the member's experiences (Dearborn & Simon, 1958; Gupta, 1984). Upper echelon researchers draw on these insights and highlight the role of differentiation among team members' functional experiences. The underlying notion of functional heterogeneity rests on the hypothesis that the versatile nature of the team brings in different perspectives, which can

be consequential in team decision making (Bantel & Jackson, 1989; Bunderson & Sutcliffe, 2002).

When reviewing functional diversity, it is essential to acknowledge the various types of functional diversity conceptualisations that exist in the literature. Bunderson and Sutcliffe (2002) suggested that the construct of functional diversity could be conceptualised in four different ways. The need for having this distinction was to understand if managers are broad generalists or narrow functional specialists. The four measurements of functional diversity include *dominant function diversity*, *functional background diversity*, *functional assignment diversity* and *intrapersonal functional diversity*. In the following section, I reflect on these definitions.

Dominant functional diversity is based on the definition of *functions* as *"the extent to which the team members have spent greater part of their careers"* (Bunderson & Sutcliffe, 2002, p. 878). This concept rests on the assumption that members bring a specific functional perspective to the team, which is typically inclined towards the dominant function in their careers. *Functional background diversity* refers to the *"extent to which the team members differ in their (complete) functional backgrounds"* (p. 879). The underlying assumption of this perspective is that members have a larger pool of resources than merely the dominant/prominent function of their careers. Thus, the entire functional histories of managers are considered. *Functional assignment diversity* is defined as the *"diversity in the (current) functional assignments of the team members"* (p. 879). The underlying reason for this type of diversity is to determine if the current functional assignments cover some range of categories, and not if the members have past experiences in certain functions or not. The last category of *intrapersonal functional diversity* is defined as *"the extent to which the individuals on a team are narrow functional specialists with experience in limited range of functions or broad generalists whose work experience span a range of functional domains"* (p. 880). This measure of diversity mainly addresses the diversity represented in the functional background of individual members. Regardless of the existence of these constructs, the most prominent construction in the literature is for dominant functional diversity.

Despite the significant role of functional backgrounds in the TMT literature, the marginal cognitive contribution of functional diversity remains contested. On the one hand, it

is argued that functional diversity helps in the cross-fertilisation of ideas and could be influential in bringing out innovative and novel solutions (Agnihotri & Bhattacharya, 2015; Bantel & Jackson, 1989; Harrison & Klein, 2007), the other side argues that diversity of functions suffers from social categorisation, loss of cohesion and in-group competition, thus negatively impacting the team's cognitive outcome (Kor, 2006; Wei et al., 2005). In the following paragraphs, I provide a review of research studies postulating a positive and negative linkage followed by the categories of functional tracks.

Researchers suggest that a positive cognitive after-effect of functional background is possible due to the work-related nature of the concept, which results in cognitive conflict (Jackson et al., 1995; Pelled, 1996). Cognitive conflict is suggested to enhance the group outcome and result in a positive contribution to the team (Amason, 1996). Using this logic, researchers hypothesise that functionally diverse teams are supposed to have a larger pool of unique information, viewpoints and non-overlapping knowledge, that manifest better outcomes and superior cognitive skills (Pelled et al., 1999; Simons et al., 1999). As a result, with diverse functional areas represented in the decision making, teams are expected to generate high quality and novel solutions and reduce the group-think behaviour (Cannella, Park, & Lee, 2008; Williams et al., 1995). Because of the variety of perspectives that functional diversity brings, it is considered to be a contributor to wide-ranging cognitive resources in the team. For the same reason, researchers suggest that TMT functional diversity is associated with organisational innovativeness, organisational creativity and knowledge creation capability (Bantel & Jackson, 1989; Smith et al., 2005; Yoon et al., 2016). Other investigations also exist to support the positive outcome of functional diversity. For example, TMT functional diversity has been shown to positively enhance performance (Buyl, Boone, Hendriks, & Matthyssens, 2011; Cannella et al., 2008; Keck, 1997), growth in turbulent times (Keck, 1997), entrepreneurial strategic orientation (Yang & Wang, 2014), level of internationalisation (Rivas, 2012), and the export intensity of firms (Agnihotri & Bhattacharya, 2015). Likewise, research has shown evidence of an association between functional diversity and the implementation of structural changes (Williams et al., 1995) and competitive initiatives (Hambrick et al., 1996). Some researchers also suggest that the positive relationship is conditional upon factors like; the characteristics of the CEO (Buyl et al., 2011), co-location and environmental uncertainty (Cannella et al., 2008; Qian et al., 2013), industrial environments and corporate ownership (Yang & Wang, 2014) and situational circumstances (Naranjo-Gil et al., 2008). Here it must

be mentioned that a few research studies could not establish the positive association between TMT functional diversity and various firm-level decisions, specifically of an international nature. Examples exist in the case of level of internationalisation (Peyrefitte et al., 2002), international diversification (Tihanyi et al., 2000) and global strategic posture (Carpenter & Fredrickson, 2001).

As previously mentioned, a few researchers also argue for the negative after-effects of functional diversity. Bunderson and Sutcliffe (2002) suggested that when managers become too inclined towards their functions, stereotyping steps in. This sort of behaviour triggers social categorisation and as a consequence, managers of similar background bond in a smaller sub-group while others are considered outsiders to this sub-group. This *'us vs them'* attitude hampers group communications and team performance suffers. Using these arguments, many researchers have shown that functional diversity will have adverse effects on firm performance (Carpenter, 2002; Wei et al., 2005; Zhang et al., 2017). Similarly, Kor (2006) proposed that functional differences would cause competition among members for securing R&D funding; although she could not find empirical support for her hypothesis. Others like Carpenter and Fredrickson (2001) postulated a positive impact of functional diversity on global strategic posture but instead found a negative relationship. Likewise, Lee and Park (2006) argued for an inverted U-shape relationship between TMT functional diversity and internationalisation. Their logic suggested that after a certain point, social categorisation would step in and compromise the team output. This clearly shows that both types of arguments (negative and positive outcome) exist in favour of functional diversity. The mixed findings in the ongoing conversation about functional diversity in the literature are reflective of its *"double-edged sword"* nature.

3 HYPOTHESES DEVELOPMENT

3.1 INTRODUCTION

In this chapter, I develop hypotheses for my research. The first hypothesis explains the mimicking behaviour which firms exhibit in FDI location choice. Following hypotheses postulate the interaction effects of various TMT characteristics with mimicking behaviours of firms.

The choice to internationalise and invest in another country is a carefully crafted decision for which the members of the TMT engage in debate and reasoning. The high risk associated with making an optimum location choice requires that the emphasis of the discussion remains on attributes related to work as well as the firm's desire to internationalise. As already explained in section 2.4 that there could be many personality traits that can potentially affect corporate strategies, researchers postulate that job-relatedness of differences is most valuable in assessing task-performing teams (Harrison et al., 1998; Naranjo-Gil et al., 2008). For the same reasons, I focus on work or job-related measures of diversity alone. Keeping this in view, I consider the length of international experiences, diversity of international experiences, diversity of tenures, diversity of educational backgrounds and diversity of functional backgrounds to be the most relevant variables for influencing the FDI location choice decision. With this criterion, the description of the proposed hypotheses follows.

3.2 IMITATION OF FDI LOCATION CHOICE

One of the underlying assumptions in the institutional view is that the environment is highly deterministic of organisational forms and decisions. A prime challenge in the international context is the uncertainty driven by unfamiliarity with the host country characteristics (Henisz & Delios, 2001). Carpenter and Fredrickson (2001) define uncertainty as a *"consequence of environmental factors that generally result in a lack of the information needed to assess (the) means-ends relationship, make decisions and confidently assign probabilities to outcomes"* (p. 536). In the context of IB, environmental uncertainty refers to the perceived inability to predict the organisation's external environment (Sartor & Beamish, 2014). This uncertainty originates from a firm's lack of knowledge about the dynamics of a particular foreign market in terms of

institutional framework, customer behaviour and business intricacies (Benito & Gripsrud, 1992). In this regard, institutional theorists have argued that cognitive limitations surrounding market entry lead to mimetic effects (Guillén, 2002; Haveman, 1993). Here, *"mimicking"* refers to the achievement of conformity through imitation (DiMaggio & Powell, 1983). The argument for mimicking/imitation nests in the institutional cognitive pillar, which suggests that compliance occurs in circumstances where other types of behaviours are perceived inconceivable, and routines are followed because they are taken for granted (Scott, 2001). More so, when a large number of firms follow a particular decision, it becomes an unspoken rule to follow the same decision, thus creating an *"institutional bandwagon"* (Abrahamson & Rosenkopf, 1993). In this regard, the imitation of FDI location choices provides an effective means to reduce uncertainty as well as to gain legitimacy (Chang & Park, 2005).

To show its impact, the institutional cognitive pillar also relies on a firm's ability to absorb information from its surroundings (or more commonly termed as) *"organisational learning"* to explain how isomorphism is achieved. The organisational learning literature suggests that firms tend to learn vicariously by imitating or avoiding the specific actions they perceive would have an impact on them, especially when they are uncertain (Baum & Ingram, 1998; Haunschild & Miner, 1997; Kim & Miner, 2007; Starbuck, 2009). The uncertainty driven by a firm's lack of knowledge about the host country compels firms to gauge the munificence of the environment by observing the actions of their peers (Bastos & Greve, 2003; Guillén, 2002). According to this perspective, imitation is an effective way for firms to capture the experiences of other firms (Levitt & March, 1988). The extent to which firms rely on experiential versus vicarious learning is a function of resources available to them. Learning by experimenting is considered costly and time-consuming, while imitation provides a valuable substitute (Lieberman & Asaba, 2006). Therefore, when firms lack the experiential knowledge required to reduce uncertainty regarding a particular decision, they look for other sources of information. This vicarious learning is a departure from the traditional and more sequential learning as predicted by the Uppsala model (Johanson & Vahlne, 1977). Thus, instead of step-wise internationalisation, decisions by others are considered to be a source of learning, which also helps to mitigate the perceived institutional differences with host nations (Csaszar & Siggelkow, 2010; Jiang et al., 2014).

Parallel to the argument of learning from external sources, the concept of *"absorptive capacity"* also suggests that firms accumulate and utilise external information and use it for their purposes (Cohen & Levinthal, 1990). In other words, firms utilise their capabilities to absorb information from their surroundings. The information regarding FDI decisions of others in the home country or industry is assimilated to form a picture of the most desirable location to invest.

Firms that follow and co-locate with other home country firms gain legitimacy in multiple ways. Tan and Meyer (2011) suggest that when co-locating with (home) compatriots, firms tend to enjoy legitimacy spillovers. Li et al. (2007) term these firms as *"FDI Communities - as bounded sets of foreign-invested firms with related identities in a host country"* (p. 177). Ethnic ties with home country firms provide not only support and trust in foreign locations but are also a source of knowledge about the new location and consequently help to improve the firms' chances of survival (Demirbag, Tatoglu, & Glaister, 2010; Miller, Thomas, Eden, & Hitt, 2008). Also, the follower firms may learn from the behaviour of existing home country firms while crafting their responses to institutional and legitimacy concerns. Moreover, the new entrants can quickly establish legitimacy by forming relationships (e.g. sharing of distribution channels, logistics and other affiliated businesses) with potential business partners within the community of home country firms. Consequently, association with other home country firms not only plays a pivotal role in determining success at host locations but also helps in achieving legitimacy.

A *"reference group"* represents a collection of actors/players, who are related by way of proximity in the socio-demographic space (Dobrev, 2007). Baum and Ingram (1998) suggest that the extent of learning from others depends upon the relatedness to other firms. As a result, firms tend to relate more to reference groups, whose experience, history or location is perceived to be more relevant to their situations (Csaszar & Siggelkow, 2010; Guillén, 2002). Therefore, firms mimic other firms with whom they are familiar because they are in the same industry, business group or similar institutional environment (Bastos & Greve, 2003; Chang & Park, 2005; D'Aunno, Succi, & Alexander, 2000; Garcia-Pont & Nohria, 2002). Faced with similar institutional challenges, home country referents simplify and categorise the complex environment, by providing reference points for others to follow. As already suggested, these home country referents add to the legitimacy and knowledge spillovers, thus supporting the

decision of new investors. Therefore, by following home country firms, MNEs not only reduce the perceived uncertainty and achieve legitimacy but also economise on the cost of experimenting and learning by doing (Henisz & Delios, 2001; Lieberman & Asaba, 2006). Hence, there exists a tendency among firms to follow other home country firms' FDI decisions. Therefore, we can hypothesise the following:

Hypothesis H1: Prior FDI by other home country firms in a location positively affects the entry of the focal firm in that location.

3.3 TMT INTERNATIONAL EXPERIENCE

Executives who have previously faced cultural complexities because of their foreign education and professional experiences in different settings are considered very useful for a firm's internationalisation activities (Meyer, 2006). The profound knowledge of foreign environments and cultures is of high significance, especially in uncertain environments (Lee & Park, 2008). Internationally experienced managers may bring unique ideas and distinctive cognitive models to reconfigure a firm's strategic and competitive designs. The individual and shared team international experience of members enhances the collective ability of TMTs to absorb and process multifaceted information related to internationalisation (Hutzschenreuter & Horstkotte, 2013). Top executives with educational or managerial experiences abroad, not only stand-out amongst their peers, but also feel more confident in committing to locations with otherwise higher perceived risks (Athanassiou & Roth, 2006). On the contrary, managers who lack such experiences may associate higher risk potentials with target locations (Herrmann & Datta, 2005).

The literature provides evidence to support and substantiate the role of top managers' international experience in a firm's effort to internationalise. TMT members' past experiences and cognitive abilities are significantly helpful in identifying global opportunities, thus impacting the firm's level of internationalisation (Lu, Liu, Filatotchev, & Wright, 2014; Sambharya, 1996; Segaro, Larimo, & Jones, 2014). Moreover, internationally experienced top managers are also considered instrumental in overcoming normative and psychic distances (Cui, Li, & Li, 2013; Hutzschenreuter & Horstkotte, 2013; Maitland & Sammartino, 2015a). Building on this insight, the literature argues that TMTs with higher international experiences are likely to be more flexible and less tolerant of inertia and therefore, may even select

institutionally distant countries for investment purposes (Kedia & Bigli, 2014). It is not only through their experiences that TMT members benefit the focal firm but also through their personal connections. The social and political networks of top managers provide informational benefits to the firm and can be of significance when firms want to expand beyond national borders (Collins & Clark, 2003; Lu, Liu, Filatotchev, et al., 2014). Hence, such experienced managers are also helpful in exploiting relational capital and developing foreign strategic partnerships (Lee & Park, 2006; Reuber & Fischer, 1997). Top managers with international experiences also bring first-hand experience of evaluating and executing strategies in different geographies. Both, work and non-work related experiences in foreign countries develop individuals' mental models and schemas for better cultural adjustments (Takeuchi et al., 2005). These managerial experiences become critical when firms face uncertainty and even more so when firms lack experience of operating in host locations. Using such insights, the literature overwhelmingly supports the notion that a group of top managers who have worked extensively on international assignments helps to overcome the uncertainty associated with foreign expansion decisions.

The first hypothesis suggested that higher uncertainty in global expansion decisions results in mimicking isomorphism. However, from earlier discussions, we also know that when firms build their capabilities to deal with uncertainties, they may shift from external to internal sources of information (Guillén, 2002; Lieberman & Asaba, 2006). In other words, when firms develop capabilities to handle potential challenges in FDI, the extent of imitation reduces (Henisz & Delios, 2001; Kim, 2013). Using similar logic, the upper echelons literature suggests that internationally experienced managers add specific resources to the team's cognitive abilities, induce confidence and reduce the requirement to rely on others for learning.

Top managers' prior interaction with foreign nationals, firms and events, develops their cognitive frameworks and builds their confidence for operating internationally. Managers who have spent longer tenures abroad also feel self-reliant when it comes to making internationalisation decisions. By having dealt with regulatory, political and cultural challenges for years, top managers have faith in their abilities to understand foreign cultures, regulations, and policies, than to rely on external cues. On the contrary, firms that lack internationally experienced TMT members have fewer internal resources to consult at the time of international expansion and therefore rely on other referents for FDI decisions. Top managers with little or

no international experience also face higher legitimacy pressures, as future lacklustre performance at chosen locations can indirectly indicate towards their poor judgement and lack of (international) experience. Therefore, with increasing international experience in the TMT ranks, the need to find legitimacy by following the footsteps of other home country firms reduces.

In addition to the above, we also know that firms follow other home country firms, so at later stages, they can seek their support and enjoy network advantages in foreign locations (Demirbag et al., 2010; Miller et al., 2008; Tan & Meyer, 2011). With experienced members onboard, the requirement for support and networking relationships from compatriots also decreases. This mechanism occurs as firms with internationally experienced teams rely on their top team members' network and social connections to form new alliances (Lee & Park, 2008) and can substitute this in place of support from other home country firms in target locations. On the contrary, firms that lack such internationally experienced members also lack social and relational capital to utilise at host locations. As a result, such firms are forced to look for external sources of support. This mechanism shows that firms with internationally experienced teams not only source first-hand insights about foreign markets from internal sources but also rely on their top managers' networks for future support. Therefore, with increasing TMT international experience, the reliance on compatriots at target locations decreases.

With abilities to tackle the institutional challenges in host locations and reduced requirements of support from the home network, this thesis hypothesises that firms with internationally experienced TMT members are less sensitive to FDI signals from other firms.

Hypothesis H2: Higher TMT international experience will weaken the positive effect of prior FDI by home country firms on the entry of the focal firm in that location.

3.4 DIVERSITY OF TMT INTERNATIONAL EXPERIENCE

Upper echelons theory not only recognises the importance of individual characteristics of the TMT but also incorporates the variation of these characteristics – most commonly termed as *"diversity"* or *"heterogeneity"*. The diversity/heterogeneity in TMT is defined as *"distribution of personal attributes among interdependent members of a (TMT) work unit"* (Jackson, Joshi, & Erhardt, 2003, p. 802). The variety of personal experiences and characteristics increases the

number of cognitive tactics that managers can employ to identify problems and later find solutions for them (Schwenk, 1988). A rich and diverse pool of skills within the firm's top managers will generate a more comprehensive set of alternatives, that can be used creatively for complex problem solving (Jackson, 1992). Therefore, top managers with different cognitive schemas are likely to add to the cognitive build-up of the team and consider various strategic alternatives in a decision-making process. Using these insights, it is often argued that heterogeneous teams are not only expected to bring diverse viewpoints and perspectives (Wiersema & Bantel, 1992), but also change the information-processing capability of the group (Hambrick et al., 1996).

In addition to the *length* of international experiences (as postulated in Hypothesis H2), the breadth of international experiences also adds uniquely to a manager's cognitive schemata. Having served in different countries enhances the range of knowledge regarding different countries, thus allowing managers to make decisions with more confidence and creativity (Maitland & Sammartino, 2015b). Managers' cognition and familiarity of various countries play a significant role in foreign market selection (Clark et al., 2018). When top managers have different experiences of working in different locations, then the experience of each member adds a unique cumulative value to the location choice decision. The heterogeneity in the top management's international experiences adds to the variety of perspectives, which the team can make use of in its decisions. The differentiation among TMT members' experiences abroad is not only meaningful but also affects the centrality of their advice in the team (Athanassiou & Roth, 2006). To deliberate on this, consider an example: if a manager has experience of working in different countries within Europe and the Middle East, his level of confidence of operating in the European and Middle Eastern region would be higher when compared with others. Likewise, a group of managers with experience and exposure to different parts of the world would raise the overall cognitive capability of the TMT. This heterogeneity in the top management's international experiences influences the cognitive abilities of the team and is highly useful in the internationalisation decisions of the firm.

Being a task-related attribute, the variety of experiences allows managers to consider each other's perspective objectively. Moreover, being a less visible attribute, the variety of international experiences does not create a social rift among managers (Pelled, 1996). Any opposition of ideas at this stage is substantive, rather than affective. Hence, even if managers

experiences are different, they do not necessarily contradict each other (Harrison & Klein, 2007). Such diversity-driven thinking and solution generation can help reduce the perceptions of differences between the home and host country and lessen the impact of psychic distances (Kedia & Bigli, 2014). Consequently, the sharing of international experiences among members positively influences the cognitive abilities of the team and hence is considered a precious resource in internationalisation decisions of the firm (Maitland & Sammartino, 2015b; Sambharya, 1996).

As argued above, the diversity of international experiences of top executives provides critical insight into FDI location decisions. This cognitive build-up of the team also helps to reduce mimetic pressures on managers in many ways. Firstly, with increased knowledge and confidence in operating in different parts of the world, top managers are less likely to perceive uncertainty with foreign expansions in target locations. The increased number of connections that managers can draw between their past experiences and potential host locations allows them to predict the institutional challenges and prepare appropriate responses. The confidence of dealing with host country's institutional challenges reduces the perceived uncertainty. From the initial arguments, we know that firms employ imitative behaviours when faced with uncertainty (Henisz & Delios, 2001). However, when the perceived uncertainty lowers, the signalling value received from others' decisions carries less importance; as now the experienced TMTs can assess the munificence of the location by themselves. Therefore, rather than relying on other home country firms, diversely experienced teams can bank on their own experiences and suggest novel strategies.

Secondly, with diversely experienced members, the value that firms derive from other home country compatriots also decreases, as firms can now quickly establish themselves without seeking help from the network of home country firms. The experience of working in different geographies allows managers to believe that in foreign locations, they can exploit their social and personal network resources more efficiently to gain access to knowledge and human capital, rather than to rely on the network of home country firms. By working in countries with a wide range of political and regulatory profiles, managers become confident that they have sufficient experience of handling governmental agencies and legislation, as well as form new coalitions (Lee & Park, 2008), without needing to bank on to the home country

informational network. This reduces their reliance on other home country firms for location decisions.

In light of the above explanation: the reduction in uncertainty coupled with the confidence of operating in target locations displaces the need for imitation. With these insights, I propose a weakening effect of TMT international experience diversity on the mimicking of location choice decisions.

Hypothesis H3: Higher TMT international experience diversity will weaken the positive effect of Prior FDI by home country firms on the entry of the focal firm in that location.

3.5 DIVERSITY OF TMT TENURE

TMT organisational tenure diversity implies heterogeneity in experiences, expertise, networks and viewpoints arising because of different lengths of stay as a member of the firm. The upper echelons perspective suggests that managers who join the organisation at different points in time will have different mental models and cognitive schemata (Hambrick & Mason, 1984). A TMT member's tenure influences her attitudes towards change and organisational commitment, thus influencing her decision making (Bantel & Jackson, 1989; Finkelstein & Hambrick, 1990).

Members with different tenures would hold asymmetrical information about the firm and would organise it in different ways to find unique solutions for organisational challenges. A higher proportion of knowledge of long-tenured members is likely to originate from their experiences within the organisation (Nadolska & Barkema, 2014). If executives have spent most of their time-periods in one organisation, then it can homogenise their thinking patterns and compromise the disruptive problem-solving abilities (Hambrick & Mason, 1984; Wiersema & Bantel, 1992). While longer tenure in an organisation is considered a source of a learning curve, it may also have an adverse impact due to an increasing myopic view of strategic options. This is because long-tenured managers are considered to have rigid ideas about how the firm has been successful in the past and hence are likely to stick with a limited number of lessons learned. For this reason, longer-tenured managers are likely to conform to industry norms and template-like solutions (Agnihotri & Bhattacharya, 2015; Finkelstein &

Hambrick, 1990). On the other end, managers with shorter tenures may also have recent international experiences on their account and are likely to bring new perspectives from other organisations. With new and fresh ideas, short-tenured managers also help in reducing uncertainty by contributing valuable insights from their recent experiences. Therefore, a person who has spent many years being an employee of the MNE is likely to have a different opinion on a firm's expansion to other countries, compared to a fresh employee.

In terms of FDI decisions, long-tenured managers might know about how the firm has been successful in past investment decisions. With first-hand experience of working with the firm, its employees and products, longer-tenured managers have a preference to avoid previous mistakes and invest in tried and tested locations. With a preference for low risk and sticking to standard solutions, these managers develop a *"follow the crowd"* type preference, and hence opt for destinations that are most frequently selected by others. On the other hand, the short-tenured managers bring in a fresh perspective to the group. Although these managers are new to the firm, their knowledge from previous employers and other organisations provides new insights for international expansion decisions (Ang et al., 2018; Tuschke et al., 2014). With fresh ideas and a desire to establish their repute, short-tenured managers do not shy from promoting out-of-the-box options and opting for locations which are not so frequently selected by other firms.

A review of upper echelon research suggests that managers with different tenures can be conceptualised as cohorts that differ in their experiences, risk-appetite and opinions about the firm. These groups bring a variety of ideas and add to the cognitive resources available to the firm (Harrison & Klein, 2007). Moreover, being a less-visible and highly job-related attribute, diversity in organisational tenure is expected to generate a discussion centred around work-related issues. Based on their tenures, managers are expected to share their opinions regarding risky ventures and previous successes or failures of the company. With a different point of view, members compare and deliberate on investment alternatives through an objective (and job-related) lens. Consequently, rather than creating any emotional or affect conflict, this sort of discussion generates substantive conflict, which is considered central for the group's superior cognitive performance. With positive outcomes, teams which are diverse (in tenure) are expected to find innovative solutions to complex problems.

The healthy mix of tenures in a TMT builds the cognitive capabilities of the firm and enhances its capacity to undertake the challenges associated with foreign expansion. The literature endorses the role of TMT tenure diversity in internationalisation decisions like: international diversification (Tihanyi et al., 2000), global strategic posture (Carpenter & Fredrickson, 2001), and the selection of distant locations (Barkema & Shvyrkov, 2007). The build-up of capabilities (because of different tenures) also helps to reduce the cognitive limitations surrounding international entry. Hence, there is more than one mechanism through which a (tenure-wise) diverse TMT weakens the isomorphic tendencies in location choice.

At the outset, with optimal risk-appetite in a well-diversified TMT, firms are better able to differentiate between locations which offer secure investment opportunities from the ones which suffer from potential hazards and risks. Consequently, it reduces the overall perceived uncertainty and allows firms to select locations based on a risk-weighted rationale. This ability to objectively assess the munificence of each location lowers the ambiguity associated with expanding to unfamiliar places. The effect of knowing which foreign locations offer better opportunities than others also reduces the likelihood of blindly learning from other firms' investment decisions. Therefore, with increased diversity in TMT's tenure, the imitation effect is displaced.

In addition to the above, an outcome of higher cognitive abilities (because of diverse tenures in the team) is that with superior knowledge and information available from internal sources, a firm's tendency to rely on external sources reduces (Kim, 2013; Lieberman & Asaba, 2006). While long-tenured managers know the firms inside out, the short-tenured managers recommend novel strategies. Consequently, teams recommend a strategy that allows the firm to exploit its resources and competitive advantages in a unique combination. With a novel strategy in sight, managers believe that they can come up with strategies that would require little support from the compatriots. With this conviction, teams can come up with optimal decisions, and substitute the need to rely on home country networks in target locations. This increase in confidence enables firms to avoid the trajectory of other home country firms. This mechanism weakens the effect of prior investment by other home country firms on a firm's location choice.

The mechanisms mentioned above work in conjunction with each other, and the need for imitating the popular decisions by other home country firms is displaced when decision makers are diverse in terms of their organisational tenures. Accordingly, this research proposes the following.

Hypothesis H4: Higher TMT tenure diversity will weaken the positive effect of Prior FDI by home country firms on the entry of the focal firm in that location.

3.6 DIVERSITY OF TMT EDUCATIONAL BACKGROUND

Education is a sign of wisdom, insight and cognitive resources embedded in an individual (Carpenter & Fredrickson, 2001). Employees with superior knowledge stocks assist in the process of firm knowledge creation (Smith et al., 2005). The amount and type of education received shapes personalities, attitudes and cognitive schemata of individuals and their strategic choices (Bantel & Jackson, 1989; Hitt & Tyler, 1991; Smart & Pascarella, 1986). Consequently, educational backgrounds and past curriculum choices have a profound impact on individuals thinking and decision-making capabilities. The upper echelon theory contends that a higher amount of education received acts as an indicator of cognitive power and ability to make complex decisions. Therefore, highly educated managers are better suited to comprehend difficult strategic situations and find appropriate solutions for challenging scenarios.

In addition to the length of TMT's educational record, the diversity of educational backgrounds also plays a crucial role in a firm's decision making. TMT educational diversity implies that a group of managers with various academic backgrounds will have diverse cognitive resources to utilise when they handle a problem. In other words, top managers with different educational backgrounds and training will evaluate investment choices differently (Barkema & Shvyrkov, 2007; Wiersema & Bantel, 1992). For example, it is considered that those with science degrees are expected to assess challenges and opportunities differently, than those with degrees in arts or history (Hambrick & Mason, 1984). Likewise, managers who have been educated in management-related disciplines are expected to engage in enhanced planning and coordinating activities when compared with managers who have been educated in engineering disciplines (Damanpour, 1991; Kimberly & Evanisko, 1981). In line with these

traditions, upper echelon literature realises that managers of different educational backgrounds will have unique perspectives of strategic decisions and outcomes.

In a TMT, each member brings in unique know-how based on their educational background. As these educational backgrounds could be different, so team members bring in a host of ideas and perspectives, without necessarily contradicting each other on one dimension (Harrison & Klein, 2007). In other words, top managers with different educational backgrounds and training bring in a variety of perspectives that add to the knowledge resources of the team.

Being a task and a deep value-driven attribute, the variety of educational perspectives results in a substantive conflict within the team (Harrison & Klein, 2007; Phillips et al., 2006). The multitude of information and curriculum choices voice in the background, help to source the best answer for the question at hand. The qualitative differences between members' educational backgrounds help to increase the overall innovative capacity of the team, as members objectively discuss the options and are more open to criticism and disagreement (Harrison & Klein, 2007). This openness results in a positive outcome in terms of team performance. Therefore, with diverse education-based perspectives on how to achieve a task, the overall innovative capacity of the team increases (Bantel & Jackson, 1989; Carpenter, 2002).

The literature supports the role of educational diversity and suggests that managers with different educational backgrounds may come to different inferences concerning: a firm's resources and potential to internationalise (Nadolska & Barkema, 2014), and global strategic posture of the firm (Carpenter & Fredrickson, 2001). With increased diversity, an educationally diversified team also identifies various risks arising out of international expansion and can thus help reduce the perceived uncertainty of the target location. In this context, consider for example that someone with an MBA might be able to quickly recognise cultural challenges in the new location, whereas someone with a degree in law might be better suited to identify legal challenges associated with the new investment. Therefore, the diversity of educational backgrounds can have a significant impact on the way top managers think and help in selecting investment locations (Barkema & Shvyrkov, 2007).

For a decision concerning investment location, a variety of educational backgrounds also help managers to weaken the requirement to imitate. Primarily, the increased cognitive

resources, coupled with a multitude of viewpoints, help to unearth the risks and hazards associated with various investment alternatives. This ability to distinguish between feasible and unfeasible investment options reduces the perceived ambiguity associated with foreign locations. The resulting reduction in uncertainty, coupled with a boost in internal cognitive resources provides a meaningful substitute to external second-hand learning. This mechanism weakens the extent to which firms follow other home country firms in their FDI decisions.

Education is also a source of confidence among individuals (Terry, 2013). The extent of imitation in location choice is also affected by the increase in confidence that a variety of educational backgrounds bring. Educationally diverse teams are not only better equipped to make wiser decisions but also have enhanced decision-making abilities. Managers consider their decisions to be more legitimate if they have passed the test of others with diverse educational backgrounds. Confident of considering multiple perspectives while selecting a location, educationally diverse teams tend to downplay learning from other sources. As a result, unlike homogenously educated teams, heterogeneous teams have fewer reasons to follow others' decisions to gain legitimacy in their investment decisions. Therefore, the diversity in TMT educational backgrounds weakens the effect of other firms' investment choices.

Hypothesis H5: Higher TMT education diversity will weaken the positive effect of Prior FDI by home country firms on the entry of the focal firm in that location.

3.7 DIVERSITY OF TMT FUNCTIONAL BACKGROUND

The decision to select a location requires significant judgement on a vast array of different functionally-related factors. Top managers are expected to widely discuss the opportunities and challenges that each country has to offer, and a decision is likely to emerge out of a comprehensive debate. The basis for this debate is the functional know-how that each member brings to the discussion table. The construct of TMT functional diversity rests on the assumption that each member brings a specific perspective, mostly drawn from their experience in a function. However, the way manager's functional expertise affects the cognitive performance of the group remains a contested theme in literature. For these reasons, it is mostly referred to as a *"double-edged sword"* in the literature.

On the one hand: it is believed that diversity of functional knowledge in a work-related attribute results in work-related (or substantive) conflict, which is considered to have a positive effect on the cognitive outcome of the team (Milliken & Martins, 1996; Pelled, 1996). Managers who come from a similar functional background are likely to have similarities in cognitive representations and may prefer similar solutions (Hambrick & Mason, 1984). With functional diversity, TMT members bring their expert advice on marketing, production, technical, legal, financial and other functional areas to the discussion table. Hence, a team with a diverse set of functional expertise should have access to a larger pool of unique information, viewpoints and non-overlapping knowledge, that manifest different attitudes (Simons et al., 1999). For example, while the TMT member with a marketing background can share the cultural issues faced in a particular location, the member with a finance background can suggest ways to negotiate with local banks. Because of the unique knowledge resources that each member brings, the functional diversity should bring a variety of perspectives and hence add to the cognitive muscle of the team (Harrison & Klein, 2007; Pelled et al., 1999).

On the other hand, it is believed that despite access to a considerable breadth of functional information, the dynamics of TMT functional diversity are not as simple as they appear in other demographic characteristics. Unlike other work-related attributes, the functional expertise of a manager is generally known to her peers, making it a surface-level attribute and vulnerable to social categorisation (Bunderson & Sutcliffe, 2002). Managers are prone to using *"selective perception"*, as they associate functional background as a determinant of others' knowledge bases (Hambrick & Mason, 1984). Moreover, top managers have risen in their careers after spending lengthy tenures in their functional domains. This association with the function makes members deeply attached to their area of expertise. Any solution that does not go well through their perspective is considered inadequate and deficient. When managers suffer from this stratification, they tend to label others from different functions as *"out-group members"* and inherently consider them as unable to comprehend their perspective (Turner et al., 1987). When such social biases arise, the cohesion among group members suffers and triggers an affective conflict (Bunderson & Sutcliffe, 2002). This socio-emotional categorisation, coupled with affective conflict, results in a turnover and reduced cognitive performance of the group (Pelled, 1996). In line with this explanation, it is argued that although when TMT members' functional diversity broadens, the skill-set of the team might enlarge, the

adverse effects of social categorisation and affective conflict deteriorate the overall functioning of the group.

The decision to invest in foreign locations already poses significant ambiguity regarding institutional challenges at host locations. With diverse functional backgrounds and social categorisation at heart, TMT members become further distanced from each other. Therefore, rather than deciding on more thoughtful decisions, the division within members further exacerbates the uncertainty associated with international expansion. Although managers can individually come up with solutions from the perspective of their functions, their inability to synthesise everyone's suggestions into one holistic decision generates sentiments of disagreement within the group. This internal weakness forces the teams to look for external cues which could help reduce the uncertainty associated with foreign locations. In this context, piggybacking on other home country referents, who have already selected investment locations provides a meaningful substitute.

In addition to the above explanation, teams with divisions and fault-lines are also less confident in their decisions. These teams require external support mechanisms for gaining legitimacy in their assessments of target locations. In this context, the potential of future network support from other home country firms provides necessary legitimacy to fill in the deficit of confidence. This mechanism also reaffirms that mimicking the actions of other home country referents allows functionally diverse teams to reduce uncertainty as well as compensate for lack of confidence in FDI decisions. Consequently, this research suggests that with increasing TMT functional diversity, the reliance on prior FDI by other home country referents increases.

Hypothesis H6: Higher TMT functional diversity will strengthen the positive effect of Prior FDI by home country firms on the entry of the focal firm in that location.

4 RESEARCH DESIGN AND METHODOLOGY

4.1 INTRODUCTION

After discussing the hypotheses for this research in the previous chapter, this chapter consists of five main elements. The chapter begins with the justification for the choice of the selected research approach. Later, I share the methodology that is used for the sampling and identification of firms. In this section, I discuss the criteria that were used to draw on a sample of investing firms. This is followed by the measurement and identification of the variables. In this section, I discuss the construction and logic of using various variables. I also share the sources that I have used for collecting information on the variables. After this, I document the approach used to handle any missing data. Lastly, the estimation technique that was used to assess hypothesised relationships is discussed.

4.2 RESEARCH APPROACH

An essential part of the research process requires a close connection between the various elements of the research (Creswell, 2014). To have suitable rigour and fit, researchers highlight consistency among various elements of research, including; the research question, prior work, design and theoretical contribution (Edmondson & Mcmanus, 2007). The following paragraphs shed light on the research approaches and the methodological fit in this research.

The two key approaches to research methods are; *the positivist approach* and *the interpretivist approach*. The positivist approach focuses on logic, and hypotheses are deducted using theory (Ang, 2014). This approach considers the proposed relationships to stand the test of various contexts and settings. Therefore, in a positivist approach, researchers are testing the existing theories to new relationships. To test the proposed frameworks, factual information is collected, and quantitative methods like statistical analysis are employed. Various tools which are used to collect information for quantitative analysis include surveys and databases etc. On the other end, the interpretivist approach uses an exploratory perspective where knowledge is socially constructed (Creswell, 2014). Researchers use inductive methods to interpret their observations and develop theory. Therefore, in an interpretivist approach, researchers are developing/generating the theories to predict relationships. The interpretivist approach

employs qualitative research methods. Tools like interviews generally used to collect information for qualitative analysis.

Using *hypothetico-deductive logic* (Ang, 2014), the previous chapter of this thesis has proposed several hypotheses. The research question also aims to test the impact of various TMT-related variables on mimetic isomorphism. The primary hypothesis proposes a relationship between predictor (*Prior FDI*) and the dependent variable (a firm's foreign *Entry*). As the prime objective of the research was to test upper echelon attributes (various TMT-related variables) as a boundary condition (or moderator) to imitation, hence, quantitative methods were deemed most feasible for an objective analysis. This provides a positivist foundation for conducting this research. In addition, as past researchers in this area had mostly used quantitative methods; therefore, using similar methods could provide reasonable means to compare the findings. Keeping in view these insights, I have taken a positivist approach and employed quantitative methods in this research. For this purpose, quantifiable and objective information was collected from various secondary sources including; the FDI Markets database, firm annual reports, LinkedIn, Bloomberg, Compustat and the United Nations Commission on Trade and Development (UNCTAD).

4.3 SAMPLING AND IDENTIFICATION OF FIRMS

I used the FDI Markets database to extract a sample of investing firms. FDI Markets is a database that has been produced by FDI Intelligence - a division of the Financial Times Limited. FDI Markets has tracked over 160,000 FDI projects that have invested over $9.7 trillion globally, since 2003. FDI Markets records cross-border investment in a new physical project or expansion of an existing investment if it creates new jobs and capital investment. The data includes FDI projects that have either been announced or opened by a company. The year associated with FDI is the year in which the investment is announced. In the database, JVs are only recorded where they lead to new physical or greenfield operations. FDI Markets does not track mergers and acquisitions or other equity investments. Moreover, the database has no restriction on the size of investment for inclusion. FDI Markets is a reliable source of data and has been used by various researchers (Albino-Pimentel et al., 2018; Ang et al., 2018; Castellani, Jimenez, & Zanfei, 2013; Duanmu, 2014). In their review, Nielsen et al. (2017) also showed

that FDI Markets was one of the most widely used databases in FDI location choice research, adding further to its reliability.

The sampling frame for this research includes publicly listed firms that are based in the US and engaged in FDI in the Asia-Pacific region from 2009 to 2014. This context is ideal for empirical investigation for several reasons. Firstly, we have to consider that the US is regarded as a developed economy with high-quality institutions. MNEs based in the US face considerable public and private hazards when they internationalise, especially in countries with weak institutions (Desbordes, 2007; Globerman & Shapiro, 2003). This adds to the managers' cognitive limitations, that surround international expansion decisions. Therefore, the Asia-Pacific region is a reasonable selection for potential target locations, especially, in order to investigate the decisions made while facing heightened uncertainty. Likewise, the time-frame of 2009 – 2014 is also valuable in this respect, as the post-global financial crisis period provides an ideal time-window to study the proposed framework. Macroeconomic and political shocks are often followed by periods of uncertainty and volatility (Bloom, 2009). The global recession in 2007 – 08 sent economic shockwaves around the globe, slowing many economies, including the ones in the Asia-Pacific region. The economic slump triggered governments and central banks to opt for policies that would prevent the effects of the financial crisis from coming to their shores (UNESCAP, 2014). Bleak estimates for growth coupled with frequent policy changes added further to the volatility and perceived uncertainty faced by the investing MNEs, thus making this context highly suitable for this study.

This research limits the number of potential host countries to investment destinations in the Asia-Pacific region. Hence, the list of potential host countries[1] included; China, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. These 11 countries in the Asia-Pacific region provided a suitable context to investigate the imitative behaviour of MNEs. Besides, the diversity in their culture and regulatory institutions presents an opportunity to examine the effect of institutions to a large degree. Moreover, having more than one host country considerably increases the generalisability of the research. Likewise, data for multiple years (panel data) is considered

[1] Hong Kong, Bangladesh and Pakistan were removed from the sample because of zero or very few observations.

more powerful for examining the FDI location choice decision, as it allows higher degrees of freedom and sample variability (Nielsen et al., 2017).

Out of the entire population of US MNEs investing in the selected countries, I drew on a sample of firms that had engaged in new greenfield manufacturing investments from 1st January 2009 to 31st December 2014. Greenfield FDI involves the establishment of operations in a foreign country (Peng, 2006, p. 236). Selecting one form of establishment mode provides a unified context to investigate the investment behaviour of firms. Besides, restricting to one form of entry mode is common in location choice research (Alcácer & Chung, 2014; Duanmu, 2014; Jandhyala, 2013). By focusing only on the greenfield investments, researchers can isolate the location choice decision from other effects, like the potential of acquisition targets and avoid confounding considerations in FDI decisions (Albino-Pimentel et al., 2018). An additional limitation to observing only greenfield investments was the restriction of the FDI Markets database, which does not provide information on acquisitions or other forms of equity investments.

The literature shows that the learning that firms accrue is also reliant upon their ownership structure (Cui, Li, Meyer, & Li, 2014). Keeping in view this perspective, while identifying firms, the list obtained from FDI Markets was carefully analysed to include the public listed firms only. Public listed firms have a unique ticker which is used to identify their presence on the stock exchange. This ticker was used to identify public listed firms from the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system maintained by the US Securities and Exchange Commission (SEC). In addition to the tickers, Central Index Keys (CIK) were also used to confirm the identification of firms. Firms that were Private or listed on the Over the Counter (OTC) markets were not included in the sample. I also dropped the firms for the years in which they were either not public or were de-listed from the stock exchange.

In order to have consistency in the type of firms considered, I focused on firms in the manufacturing industry. Firms from different industries have varied motivations and resources available for FDI. Moreover, firms from service sectors may respond differently to institutional forces when compared with firms from the manufacturing industry (Kolstad & Villanger, 2008; Kundu & Contractor, 1999). For these reasons, it is common practice in FDI location choice

research to focus on either manufacturing or service FDI (Albino-Pimentel et al., 2018; Nachum, 2000). In order to account for these insights, I used Standard Industrial Classification (SIC) codes to select the manufacturing sector firms. SIC is a four-digit number to classify industries in the US. To select firms in the manufacturing industry, I kept those companies whose SIC codes were in the range from 2000 to 3999. This range represents the standard classification of manufacturing firms in the SIC code list and includes companies from a variety of sectors including; food, furniture, printing, chemicals, petroleum and refining, glass, steel works, construction, mining, computer and electronics, aircraft, automotive and railroad. A large number of sectors within an industry type, help to increase the generalisability of the research, as well as overcome any issues that could be associated with variability within the larger industries. This generated a list of 202 publicly listed firms which had engaged in FDI in the selected countries within the given time frame. These firms engaged in a total of 432 investment projects across the 11 selected countries within the selected period. The distribution of these investment projects in selected countries and years is shown in Table 4.1 and Table 4.2 respectively. To ensure that the sample did not suffer from selection bias, a Heckman 2-stage test was conducted. The results did not show any bias in sample selection (details of the test and the results are provided in Chapter 5).

Table 4.1 - Distribution of investment projects across countries

Country	No. of Investments
China	217
India	99
Indonesia	10
Japan	5
Malaysia	18
Philippines	8
Singapore	23
South Korea	11
Taiwan	6
Thailand	19
Vietnam	16
Total	**432**

Table 4.2 - Distribution of investment projects across selected years

Year	No. of Investments
2009	80
2010	99
2011	94
2012	55
2013	52
2014	52
Total	**432**

4.4 CONSTRUCTION OF VARIABLES

4.4.1 DEPENDENT VARIABLE

The FDI location decision of a firm was captured by the binary dependent variable *Entry*. The variable *Entry* took the value of 1 if firm *'x'* invested in location *'i'* in time *'t'*, otherwise it was 0. This formation of the dependent variable generated a panel dataset of *firm-country-year* spells. 202 firms potentially investing in 11 countries over 6 years, generated a set of (202*11*6) 13,332 *firm-country-year* spells. After accounting for missing data, I was left with 12,771 cases of *firm-country-year* observations. Such measurement of the dependent variable frequently appears in FDI location choice research (Henisz & Delios, 2001; Jiang et al., 2014).

The review of how past researchers have considered the *"location choice"* dependent variable reveals that it has been constructed in a number of ways. Most authors operationalise *"firm entry"* by creating a dichotomous variable which takes a value of '1' if a firm enters at a particular location, in a particular year or '0' otherwise (the same approach as opted for in this research). Examples of such constructions are available in works of Henisz and Delios (2001), Berry et al. (2010) and Jandhyala (2013). A brief review of the construction of the dependent variable is mentioned in Table 4.3. It can be ascertained that most of the authors in these studies did not consider the amount of investment or the flow of FDI that occurs with each investment transaction but examined the number of individual firm-entries. Few authors, on the other end also consider FDI flow as a measure of FDI distribution (Globerman & Shapiro, 2002; Kang & Jiang, 2012). Examples of such construction are common in studies that investigate the

Table 4.3 - Review of measurements and methods

Author	Dependent Variable (DV)	DV Measurement	Method adopted	Data Source	Country Setting
(Henisz & Delios, 2001)	Firm Entry	Estimated by a dummy variable; E_{xit}. Which equalled 1, if firm '*x*' locates a manufacturing plant in the country '*i*' at a time '*t*'. Otherwise, it was 0	Discrete-Time Logit Specification	Kaigai Sinshutsu Kigyou Souran-Kuni Betsu 1990-1996	Japan – Many
(Guillén, 2002)	Rate of establishment	A series of spells over durations measure DV	Cox Proportional Hazard Model	Bank of Korea 1987 – 1995	South Korea – China
(Globerman & Shapiro, 2002)	FDI Flows	FDI Inflows in a country	OLS Regression	UN World Investment	Many - Many
(Chang & Park, 2005)	Firm Entry	DV is measured by V_{ijt}. Where a firm *i* derives some utility by investing in region *j* at time *t*.	Conditional Logit Model	Import Export Bank of Korea 1988-2002	South Korea – China
(Chan et al., 2006)	Frequency of foreign market entry (Entry Counts)	Measured by counts of Japanese foreign subsidiaries that were established by each parent firm in each industry in each host country for every year.	Zero-inflated negative binomial model	Kaigai Shinshutsu Kigyo Soran 'Directory of Japanese Overseas Affiliates' 1989 - 1998	Japan – Many

Author	Dependent Variable (DV)	DV Measurement	Method adopted	Data Source	Country Setting
(Flores & Aguilera, 2007)	Firm Entry	Dichotomous variable - Y_{ijt} capturing if an affiliate/subsidiary *'i'* existed in the host country *'j'* in year *'t'*, or not	General estimating equation technique	Directory of American firms operating in foreign countries. 1981 and 2001.	US - Many
(Csaszar & Siggelkow, 2010)	FDI Entry Rate	FDI entries per year in a particular province from a particular country	Negative Binomial Regression	Data on Chinese inward investment from MOFTEC 1979-1995	Many – China
(Belderbos et al., 2011)	Firm Entry	Measured by: 'P_{ijt}' – Odds of a firm *'i'* entering a particular region *'r'* at a time *'t'*.	Conditional Logit Model	Data from Asia Shinshutsu Denshi Meika. 1979 - 2001	Japan – China
(Bastos & Greve, 2003)	Firm Entry	A firm *'i'*, investing in a region *'j'*.	Conditional Logit Model	Toyo Keizai Data Bank: Kaigai Shinshutsu Kigyo Soran ('Directory of Japanese Overseas Affiliates' 1985 - 1998	Japan – Europe

Author	Dependent Variable (DV)	DV Measurement	Method adopted	Data Source	Country Setting
(Delios & Henisz, 2003)	Firm Entry	Firm Entry *'E_{xit}'*, which took the value of 1 if firm *'x'* made an entry in the country *'i'* at a time *'t'*, otherwise 0.	Event history analysis, using Maximum Likelihood Estimates	Toyo Keizai's Annual compendium of foreign investment 1980 - 1999	Japan – Many
(Berry et al., 2010)	Firm Entry	Firm Entry *'E_{xit}'*, which took the value of 1 if firm *'x'* made an entry in the country *'i'* at a time *'t'*, otherwise 0.	Logistics regression, with robust standard errors	Directory of corporate affiliates 1993 - 2005	US - Many
(Tan & Meyer, 2011)	Firm Entry	Firm entry – V_{ij}, where firm *'i'* decides to locate at region *'j'*.	Conditional logit model	Primary survey	Many - Vietnam
(Jandhyala, 2013)	Firm Entry	Firm Entry *'Y_{ijt}'*, which took the value of 1 if firm *'i'* made an entry in country *'j'* at a time *'t'*, otherwise 0.	Standard Logit Model and Conditional Logit Model	Locomonitor Database 2002 – 2006	Many - Many
(Kang & Jiang, 2012)	FDI flow	Measured by total flow from China to eight Asian host nations.	Panel data estimation, using a random effect model	MOFCOM, China Commercial yearbook	China – Many
(Zhu et al., 2012)	Entry Rate	Dichotomous variable - capturing if an affiliate/subsidiary was established in a particular region in a given year, or not	Cox proportional hazards to model event histories.	Data by the Federal Reserve Board and Federal Deposit Insurance Corporation	Many - US

Author	Dependent Variable (DV)	DV Measurement	Method adopted	Data Source	Country Setting
(Jiang et al., 2014)	Firm Entry	Measured by a dichotomous variable *(Firm*Country*Year)*, which equalled 1, if a firm established manufacturing plant in the country in a given year. Otherwise, it was 0.	Logit Regression Model and Rare Event Regression Model	Kaigai Shinshutsu Kigyou Souran 1971-2003	Japan – Many
(Zhou & Guillén, 2015)	Firm Entry	Measured by a dichotomous variable *(Firm*Country*Year)*, which equalled 1, if a firm engaged in FDI in a country in a given year. Otherwise, it was 0.	Rare event logit regression	China Stock Market Financial Database 1991 - 2007	China – Many
(Hong & Lee, 2015)	Firm Entry	Measured by a dichotomous variable *(Firm*Country)*, which equalled 1, if a firm engaged in FDI in a country, otherwise it was 0.	The multilevel mixed effects logit model	Export-Import Bank of Korea 2981 - 2003	Korea – Many
(Li et al., 2015)	Firm Entry	Measured by a dichotomous variable *(Firm*Province)*, which equalled 1, if a firm engaged in FDI in a particular region, otherwise it was 0.	Nested logit models	Data from; Ministry of Foreign Trade and Economic Cooperation. American Business in China. China Statistical Book. 1979 – 1995	US – China

effectiveness of various governmental policies for attracting FDI. Hence, the majority of the location choice studies use the former (firm entry) approach, instead of the FDI flow approach for the construction of the dependent variable. In their review, Nielsen et al. (2017) also acknowledge the extensive use of the stock data (i.e. a static number) for estimating a relationship between the location of the FDI and characteristics of the location.

It is plausible to imagine that considering FDI flow instead of the absolute location choice (or firm entry) would reveal more in-depth insights into the extent of investment flowing to particular locations. However, it must be considered that the objective of this research was to identify the behaviour of firms to enter particular markets as a result of prior entrants, and not to determine the reasons for low or high investment flows. It is possible that for the same reason, the research surrounding isomorphic behaviour in location decisions also operationalises the location choice in the form of *"firm entry"* – as a dichotomous variable (Belderbos et al., 2011; Henisz & Delios, 2001; Jiang et al., 2014).

4.4.2 MAIN INDEPENDENT VARIABLE

To capture imitation, I computed *Prior FDI* to reflect the total number of US-based affiliates present in the host location. The United States Bureau of Economic Affairs (BEA) publishes annual numbers to report the total affiliates (with assets, sales, or net income (+/-) greater than $25 million) that invest in any country. Apart from reporting the new investments for every year, the bureau also reports the cumulative figure to date. An overview of the number of US affiliates present in the region in 2008 and 2013 is presented in Figure 4.1.

From the BEA data, I measured *Prior FDI* by computing the log of the cumulative number of affiliates at *t-1*. Measuring the total number of investments in the host country (by referent organisations) is the most common way of gauging the cognitive institutional forces (Henisz & Delios, 2001; Jiang et al., 2014). Although some authors like Kang and Jiang (2012) measure the cognitive forces by looking at the intensity of business transactions (trade) between home and the host country, the former is most common.

To check the sensitivity of my results, I used alternate measurements of *Prior FDI* as well. In this context, I used alternate measurements of *Prior FDI* by counting the total number of prior investments since *t-3* and *t-5* years.

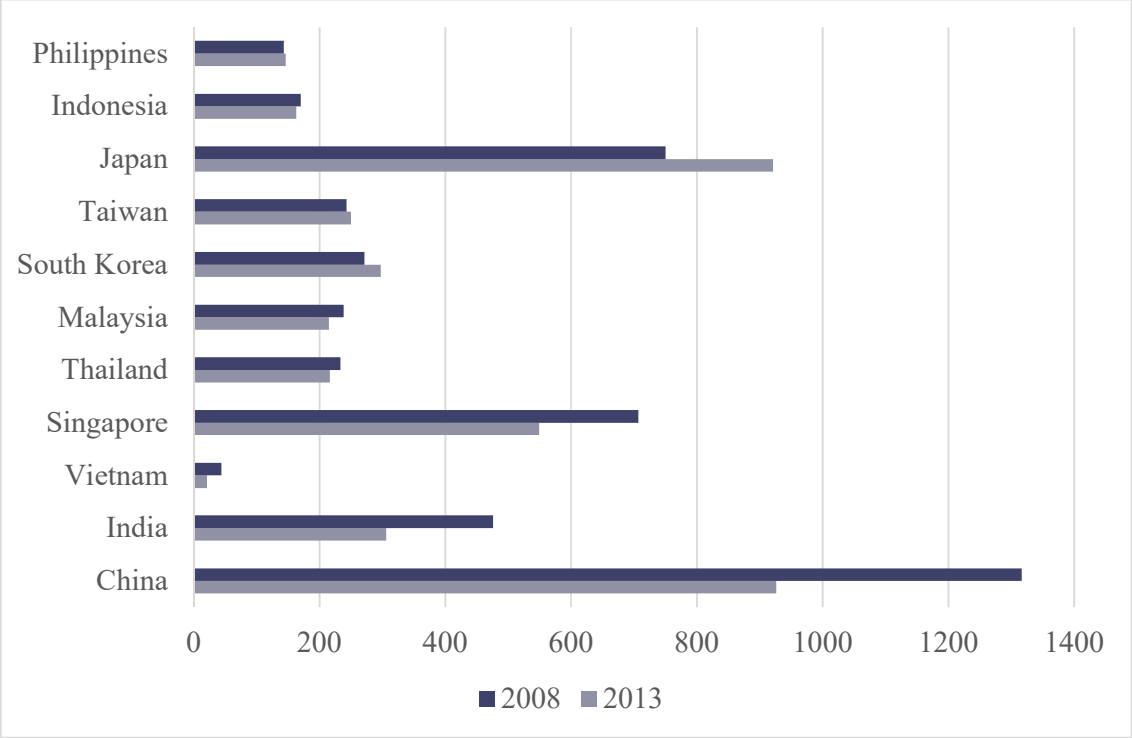

Figure 4.1 - Number of US-based affiliates in the Asia-Pacific region

4.4.3 MODERATING VARIABLES

The moderating variables in this research are TMT related variables. The primary source for identifying TMTs were the firm annual reports. The required annual reports were accessed through the SEC's EDGAR system. EDGAR is used for automatic collection, validation, and dissemination of the submitted documents by companies. Publicly listed companies that are registered on the US stock exchanges are required to upload their documents through the EDGAR system. Form 10-K refers to the annual report and firms follow a standard pattern while filling this form. In addition to the form 10-K, form DEF14A (Proxy Statement) also enlists TMT Members. Therefore, in cases where Form 10-K was not available, Form DEF14A was used to collect information concerning TMTs.

Identification and definition of the TMT have been a contested theme in upper echelon research. Carpenter et al. (2004) provide a detailed review of various definitions of TMTs used by past researchers. Various constructions of TMTs are identified in the literature including; CEO and his direct reports (Boeker, 1997b); CEO as an informant of the top managers (Iaquinto & Fredrickson, 1997); Vice President and above (Carpenter et al., 2001; Keck, 1997);

Executive Vice Presidents and above (Tihanyi et al., 2000); top two tiers of an organization's management (Carpenter & Fredrickson, 2001); and all executives listed on the form 10-K (Hambrick & Cannella, 2004; Nath & Mahajan, 2008). To remain consistent and inclusive across the sample, I captured the details of all members who were mentioned in the firm *"Executive Officers of the Registrant"* section of the annual report. This elite group of managers consists of CEO, CFO, COO, Presidents and Executive Vice-Presidents. For every corresponding year of investment, the annual reports submitted in the previous year (i.e. *t-1*) were considered for identifying members of the TMT and subsequently computing all moderating variables.

Information regarding various TMT variables was primarily collected from the Annual Reports, Marquis Who's Who, LinkedIn profiles and Bloomberg database. By employing more than one source, I was able to create a holistic picture of the executive's biographic detail and also validate the available information. The *"Executive Officers of the Registrant"* section included information about members' age, education, tenures and experience. In addition to firm annual reports, researchers also consider Marquis Who's Who to be a reliable source for executives' biographies. Past researchers like Wiersema and Bantel (1992) and Chaganti and Sambharya (1987) have employed Marquis Who's Who for sourcing TMT data. In addition to Marquis Who's Who, I also used LinkedIn profiles to get information regarding TMTs. One of the advantages of using LinkedIn profile is that it is generally created by the individual; therefore, it presents the most accurate picture of their experiences, education, and tenures. Secondly, LinkedIn profiles are regularly updated, which made sure that the latest information was available. Other researchers like Hambrick et al. (2015) and Agnihotri and Bhattacharya (2015) have also used LinkedIn to source TMT related data. Lastly, I also used the Bloomberg database for accessing executives' profiles. Bloomberg's database displays individual profiles which are maintained by Standard and Poor's (S&P) Global Market Intelligence. Bloomberg's database has also been employed by past researchers like Oxelheim, Gregorič, Randøy, and Thomsen (2013) and Nath and Mahajan (2008).

Amongst the firms that were selected in the sample, more than 3,000 individuals were found to be members of different TMTs. For the period that these members were in the TMT, their profiles were updated for every year. Consequently, for the period under consideration,

nearly 11,000 unique profiles were built for these individuals. Details regarding the construction of various TMT variables are mentioned below.

4.4.3.1 TMT INTERNATIONAL EXPERIENCE

I measured the length of TMT's international experience by a variable - *TMT int'l experience*, which is defined as the mean number of years of international experience of the TMT. Here, international experience refers to the time spent abroad (outside the US) on assignment and higher education, and in an international division. A similar definition of international experience has been used by Sambharya (1996) and Peyrefitte et al. (2002). The time spent by each member of the TMT is calculated by observing the total number of years spent in international tenure or education abroad. Time spent in gaining international educational qualifications was also considered in international experience.

In the literature, one can find other measurements for *TMT int'l experience* as well, e.g. some researchers compute this by measuring the proportion of managers with international experience (Herrmann & Datta, 2005; Nielsen & Nielsen, 2011). In my opinion, the proportion of internationally experienced managers can be considered as a reflection of a team's international experience, but it still does not capture the actual depth of experience. Consider for example; a manager with two years of international experience cannot be the same as a manager with 20 years of international experience. For this reason, I used the former approach of measuring the TMT's international experience (in years), rather than measuring the proportion of managers with international experience. Although the approach of mapping experience in years was time-consuming, as I had to go to extreme lengths to determine the complete profile of an individual, I considered that to be a more suitable representation of TMT's international experience. Nonetheless, I used the proportion-based variable as a robustness test (later explained in section 5.6).

4.4.3.2 TMT INTERNATIONAL EXPERIENCE DIVERSITY

The diversity of TMT's international experience was measured by the variable - *TMT int'l experience diversity*. This variable was first devised by Sambharya (1996), who measured it as the heterogeneity in the international experience of TMT members. However, her definition did not take into account the variability of experiences because of experiences in different

countries. Later, Athanassiou and Roth (2006) captured diversity in international experiences by asking managers about their experiences in different geographic regions. Others like Kedia and Bigli (2014) and Maitland and Sammartino (2015b) have defined the breadth or diversity of international experience as the number of countries represented in the international experiences of TMT members.

In this research, the diversity of TMT's international experience is calculated by observing the international experience of each member and then summing up the unique number of countries in which the TMT members had gained international experiences. While computing a manager's diversity of international experience, several points were considered. Firstly, I considered experiences for diversity whose durations exceeded one year. In most of the cases, top executives had spent more than one year on expat assignments. Secondly, while a manager's time spent in international divisions (within the US) was used to calculate international experience, it was not reflected in the diversity of international experience. For example, if a member had been the Vice President of the international division but based in Phoenix (AZ) in the US, this added to the length of international experience but did not add to the diversity of international experience.

4.4.3.3 TMT TENURE DIVERSITY

Tenure refers to the amount of time for which an individual has been a member of the work-unit. The upper echelon literature refers to two types of tenures, i.e. Tenure in MNE and Tenure in TMT. Examples of both types of constructs are available in the literature. For instance; Bantel and Jackson (1989) and Levy et al. (2014) identify tenure (in MNE) as the amount of time (in years) an individual has been an employee of the firm. Likewise, Nadolska and Barkema (2014) identified tenure (in TMT) as the amount of time (in years) since an individual has been a member of the TMT. As the underlying arguments of this research are aligned with the tenure in MNEs, I define *tenure* as the amount of time (in years) the firm has employed the individual.

TMT tenure diversity is calculated by computing the coefficient of variation of the members' tenures. One of the strengths of the coefficient of variation as a measure is that it captures the distribution, presumed in the concept of diversity as disparity (Harrison & Klein, 2007). In other words, the coefficient of variation provides a reliable and scale-invariant

measure to capture the asymmetry of an attribute among members (Allison, 1978). Previous upper echelon researchers have also extensively used the coefficient of variation as a gauge for measuring diversity in team members' tenures (Bantel & Jackson, 1989; Nadolska & Barkema, 2014).

4.4.3.4 TMT EDUCATIONAL DIVERSITY

The diversity of TMT educational backgrounds measures the extent of variation in the educational backgrounds of team members. The computation of *TMT education diversity* consists of two steps. As a first step, the educational backgrounds are categorised. In the second step, the extent of diversity is computed. I follow a similar two-stage process and follow Wiersema and Bantel (1992) for categorisation and computation of *TMT education diversity*. Wiersema and Bantel measured the TMT educational (background) diversity by using Blau's index (Blau, 1977). Blau's index is calculated as $1-\sum (P_i)^2$, where P_i is the percentage of the population in the ith category. Values from Blau's index can range from 0 to $(i-1)/i$. Blau's index has been considered a very useful measurement for diversity, specifically when the nature of diversity cannot be conceptualised to exist on a scale with continuous distances (Harrison & Klein, 2007). For this reason, the construction of *TMT education diversity* in the literature is most frequently computed using Blau's index (Barkema & Shvyrkov, 2007; Nadolska & Barkema, 2014).

Following, Wiersema and Bantel (1992) I first classified the educational background based on the highest degree received and then calculated the diversity in the team members' backgrounds. The various educational categories included; arts, sciences, engineering, business/economics and law. Here unless classified, the BS and MS were categorised as science specialities, for example, business. Likewise, PhDs were also classified as science categories. While considering the educational backgrounds, honorary degrees and certifications were not considered to be part of the formal education.

4.4.3.5 TMT FUNCTIONAL DIVERSITY

Functional background refers to the departments or functions in which managers have spent most of the time in their careers. *TMT functional diversity* can be defined as; *"the degree to*

which TMT members differ with respect to their functional backgrounds" (Qian et al., 2013, p. 110).

The construction of *TMT functional diversity* followed a similar process as that of *TMT education diversity*, i.e. firstly, the functional backgrounds of team members were assigned; then the extent of diversity in functional backgrounds was computed. I followed Cannella et al. (2008) in categorising and computing the diversity index. As a first step, the TMT's functional background was computed by categorising each member's dominant functional background into one of eight tracks (production-operations; R&D and engineering; accounting and finance; management and administration; marketing and sales; law; personnel and labour relations; other). As a second step, Blau's index was used to capture the *TMT functional diversity*.

4.4.4 CONTROL VARIABLES

To avoid the omitted variable bias and alternate explanations, reduce the error terms, address the spuriousness, and enhance the statistical power and confidence of the model, researchers recommend using control variables (Becker, 2005; Cuervo-Cazurra, Andersson, Brannen, Nielsen, & Rebecca Reuber, 2016; Nielsen & Raswant, 2018). It is generally recommended that neither too few nor too many variables should be used as controls (Bono & McNamara, 2011). Researchers also suggest including conceptual explanations of; *why* the control variables need to be introduced; and *how* the control variables would impact the outcome variable (Aguinis & Vandenberg, 2014). In this regard, the literature review conducted helped identify several variables that could potentially impact the FDI location choice of the firm. The selection of control variables has been done after considering the context of this research and the use of controls in similar literature. In addition to the control variables included in the final equation, I also collected the data on several other control variables like *Host country population*, *Geographic distance*, *Regulatory distance* and *Cultural distance*, but I could not include them because they did not meet the criteria of various assumptions. All control variables that were included in the final equation, were lagged by a year (at *t-1*), with respect to the dependent variable. In the following section, I describe the construction and rationale for using various control variables in this research.

4.4.4.1 TMT AVERAGE EDUCATION

Education provides an ability to interpret environmental cues, reduce uncertainty and make efficient decision making (Huffman, 1974). In this regard, researchers not only consider the curriculum choices made by the individuals, but also the extent of education obtained as an important predictor of decision making. In order to take this into account, I control for the level of education obtained by the team members by a variable – *TMT average education*. Moreover, *TMT average education* is considered a standard control variable when *TMT educational diversity* is being examined.

The *TMT average education* was computed by taking the average of the total number of years of education for all members of the TMT. Following Wiersema and Bantel (1992), the number of years of education was calculated for formal years of education. For an individual with high school, 12 years of formal education were considered. Similarly, for each Diploma degree (1 year), Bachelor's degree (4 years), Master's degree (2 years) and Doctorate degree (4 years) were added.

To check the robustness of results, I also used an alternative measure to compute the *TMT average education*. For this, I followed Herrmann and Datta (2005) and Datta and Rajagopalan (1998) to compute the scale of education. The scale of education was determined and measured on a 7-point scale based on highest degree earned. Following scales were used: 1 = High School, 2 = Some College, 3 = Undergraduate degree, 4 = Some graduate school, 5 = Master's degree, 6 = Attended doctoral program, 7 = Doctorate.

4.4.4.2 TMT AVERAGE TENURE

In this research, *tenure* refers to the time that managers have spent in the firm. As members gain experience in MNEs, they acquire unique experiences, skills, networks and viewpoints, which are expected to influence their decision making (Finkelstein & Hambrick, 1990; Zenger & Lawrence, 1989). Moreover, the average tenure of the team members is considered as a standard control variable, when tenure heterogeneity is being considered (Carpenter & Fredrickson, 2001). Following other upper echelon researchers, I measured the tenure by counting the number of years, since the firm had employed the member. After obtaining the

tenures for all members of the TMT, I computed the mean of all members' tenures to compute *TMT Average Tenure*.

4.4.4.3 TMT AVERAGE AGE

Age helps to predict an individual's values and perspectives. With age, managers' ability to process new information is impaired, and they face difficulty in integrating information (Taylor, 1975) and take longer (Williams et al., 1995) for reaching decisions. Also, older managers' commitment to the organisation's status quo and high stakes in senior positions restricts them from taking bold and riskier decisions (Child, 1974; Vroom & Pahl, 1971). Consequently, the age of managers is negatively associated with internationalisation decisions (Herrmann & Datta, 2005; Tihanyi et al., 2000). Likewise, older managers are expected to be risk-averse and show a negative preference to invest in foreign locations. In order to accommodate these concerns, I have controlled for TMT's average age. To do so, I sourced the age of every team member from firm annual reports. After observing the ages of all members, I calculated the mean to determine the *TMT average age*.

4.4.4.4 TMT SIZE

TMT size is one of the most widely used control variables among upper echelon researchers (Sambharya, 1996; Sanders & Carpenter, 1998). The number of members in a TMT is likely to influence the diversity in a group. Large teams are also likely to have more information and can influence decision making accordingly. In order to accommodate for such variability, I accounted for the TMT's size, by controlling for the total number of members in the TMT. This included all members mentioned in the *"Executive officers of the registrant"* section of the annual report.

4.4.4.5 FIRM AGE

Older firms are more likely to invest abroad as they are subject to structural inertia and generally have more resources than younger firms, to manage their foreign subsidiaries Zhou and Guillén (2015). Moreover, some young firms may not even possess the required knowledge to internationalise. I measured *Firm age* from the year of the founding of the corporation. In this process, I ignored subsequent re-incorporations or ownership changes. A similar approach

has also been used by Guillén (2002), Zhou and Guillén (2015) and Kim (2013). Data for the age of the firms was primarily collected from the annual reports and company websites.

4.4.4.6 FIRM RETURN ON ASSETS (ROA)

Better performing firms are more likely to invest abroad because they have more resources. Having access to more resources also allows better performing firms to manage their subsidiary efficiently. Firm Return on Asset (ROA) is one of the most widely used control variables to accommodate for firm performance in internationalisation studies (Carpenter & Fredrickson, 2001; Sanders & Carpenter, 1998; Zhou & Guillén, 2015). *Firm ROA* is computed by taking the ratio of net income to total assets. Information for net income and total assets was sourced from the annual reports and Compustat database.

4.4.4.7 RESEARCH AND DEVELOPMENT (R&D) INTENSITY

R&D intensity was measured by computing the ratio of R&D expenses to total sales, at *t-1*. Traditionally, *R&D intensity* has been used as a proxy for the technological advantages of a firm (Chan et al., 2006; Hennart & Park, 1994). Firms with higher technological capability are expected to have greater FDI. *R&D intensity* also represents the ownership advantages that firms might use to exploit elsewhere (Dunning, 1998; Wang, Hong, Kafouros, & Boateng, 2012). Information for R&D expense and total sales were sourced from the annual reports and Compustat database.

4.4.4.8 FIRM INTERNATIONAL EXPERIENCE

Experiential learning allows MNEs to foster superior capabilities and overcome institutional challenges in foreign markets (Guler & Guillén, 2010b; Terpstra & Yu, 1988). In this context, firm international experience occupies a central space in FDI location choice research. Researchers consider that a firm's decision to invest in foreign countries is facilitated if the firm has high international experience (Delios & Beamish, 1999; Erramilli, 1991). In order to accommodate for the learning that firms accrue because of their international operations and experience, I controlled for firms' international experience by a variable - *Firm int'l experience*. I measured this variable by recording the total number of foreign subsidiaries of a firm at *t-1*.

4.4.4.9 PRIOR PRESENCE

Firms are expected to select foreign locations (for investment) in which they have already invested (Chung & Song, 2004; Davidson, 1980). FDI location choice researchers generally control if the firm has a prior presence in the host country (Jiang et al., 2014; Li et al., 2015; Lu, Liu, Wright, et al., 2014). In order to take this into account, I created a binary variable to capture the firm's prior presence. If the firm had reported a subsidiary in the host country at *t-1*, then *Prior presence* had a value of 1; otherwise, it was 0. Information on existing subsidiaries of MNEs was obtained from their annual reports.

4.4.4.10 INTERNATIONAL INVESTMENT AGREEMENT (IIA)

A Bilateral Investment Treaty (BIT) or International Investment Agreement (IIA) is an agreement between two countries to encourage and protect the investments that are made by the investors from the partner country. Jandhyala and Weiner (2014) suggest that international investment agreements limit the ability of host governments to make discriminatory policy changes, thus lowering the political risk faced by the MNEs. Such agreements at the government-level can significantly influence the level of investment flowing between the countries (Ramamurti, 2001). In order to account for the existence of such arrangements between the home and host country, I controlled for the existence of an IIA. The existence of IIA was measured by a dichotomous variable – *Int'l investment agreement*. It was given a value of 1 if the agreement existed between the US and the host country at *t-1*; otherwise, it was 0. Information on the existence of IIA was obtained from UNCTAD.

4.4.4.11 RATE OF INFLATION

Inflation reflects the rate at which prices change over time. Inflation affects the financial and economic risk faced by MNEs in the host countries. Extremely high rates of inflation can be indicative of underlying economic problems. While considering various locations for investment, firms consider inflation as a sign of general economic health, and therefore, high rates of inflation are negatively associated with FDI (Valli & Masih, 2014). For these reasons, FDI location choice researchers commonly use inflation as a control variable (Cuervo-Cazurra, 2006; Globerman & Shapiro, 2003; Holburn & Zelner, 2010). For this research, *Rate of*

inflation is defined as the change in Consumer Price Index (CPI) on an annual basis. I use the information from UNCTAD to source the data for *Rate of inflation*.

4.4.4.12 GDP GROWTH RATE

Host market potential is one of the key factors that motivate firms to invest in foreign locations (Dunning, 1980, 1998). In order to account for the attractiveness and potential of target locations, FDI location choice researchers generally use *GDP growth rate* as one of the control variables (Jiang et al., 2014; Tuschke et al., 2014). *GDP growth rate* represents the annual average growth rate in GDP. Information for *GDP growth rate* was collected from the UNCTAD database.

4.4.4.13 INDUSTRY DUMMIES

Companies in different industries can face peculiar challenges, which can influence their decision to invest in foreign countries. In order to account for any variability because of the type of industry in which the firm operates, I have controlled for the types of industry. Following Ang (2008), I used the Organization for Economic Cooperation and Development's (OECD) classification of Low Tech, Medium-Low Tech, Medium-High Tech and High Tech for classifying firms into various industry types (OECD, 2011). In this classification, manufacturing firms are classified according to the intensity of technology in that sector.

4.4.4.14 YEAR DUMMIES

Over time, variations in exchange rates occur, and global financial and economic landscapes can change, thus influencing a firm's decision to invest in certain countries. As I had organised the data in a panel-data format, hence it was critical to account for time-specific effects. In order to control for such time-specific effects, I used year dummies as control variables. Using year dummies is a standard method to accommodate for time-specific effects among FDI location choice researchers (Barkema & Shvyrkov, 2007; Henisz & Delios, 2001).

4.5 TREATMENT OF MISSING DATA

Maximum care was taken to create complete profiles for teams and firms. Despite my best efforts, there were still cases with missing data. Researchers, including Hair, Black, Babin,

Anderson, and Tatham (2006) and Field (2009) recommend various steps for prudent management of missing data. I followed their guidelines to address the concern for missing data.

As a first step, the type of missing data was ascertained. I inspected the data and found that information was missing in two cases; while calculating the team related variables and for firms' R&D expenses (while computing *R&D intensity*). Moreover, I assessed the missing data and ensured that it was not missing because of any typographic error.

As a second step, it was assessed whether the information was missing because of the research design. It was also determined that the missing data was completely appearing in random order with no particular sequence. In the case of TMTs, there were instances where information for certain parameters like duration of international experience, education or organisational tenure was not available through any source. An example would be where information for the manager's Master's degree was available, but nothing about the Bachelor's degree. This loss of information could occur for many reasons; certain managers may not share their information for privacy reasons, or these managers are well-known enough to make it to a database like Who's Who, or when the firm decides to publish only limited information about its employees.

Among firm related variables, information on R&D expense was not available for a few years for some firms. R&D expense of each firm for six years was sourced from the annual report to compute the R&D intensity of firms. Missing R&D expense was possible, as in certain instances, firms might have recorded R&D expense under the main expenses account. With these insights, it was determined that research design was not the cause of missing data.

As a third step, cases with missing information on TMTs were removed from the database. For instance; if enough information was not available for any individual, then the individual was dropped from the team. Likewise, for the team, if the information was missing for a substantial portion (25%), the team was dropped from the sample. Out of the total data-set, 286 *firm-country-year* spells were dropped because of this criterion. For R&D expense, I used the matching principle for imputation; where the mean of R&D expense for the preceding and proceeding years was used to compute the figure.

4.6 ESTIMATION TECHNIQUE

This research intends to investigate a causal relationship between two variables (i.e. *Prior FDI* by home country firms and *Entry* into a host location by the focal firm), followed by the interaction effects of TMT-related variables. Regression analysis is used to determine the dependent (or outcome) variable from a (single or more) independent (or predictor) variables (Field, 2009; Hoetker, 2007). The correct choice of regression model depends upon the attributes of the dependent followed by that of the independent variables (Ang, 2014). One of the limitations of the linear regression is that it cannot deal with outcome variables that are binary or categorical. To overcome this limitation of the linear regression, researchers recommend using logistics regression. Instead of predicting the value of the outcome variable, the logistic regression predicts the probability of an outcome variable happening, given the known values of predictor variables. The values of probability are bounded between 0 and 1, and logistics regression uses the logistic curve to depict the relationship between predictor and outcome variables (Hair et al., 2006). It is generally an S-shaped curve, which increases slowly, then accelerates and finally stabilises towards the end (Chatterjee & Hadi, 2006). In the case of logistics regression, the value of probability does not increase beyond 1.

The logistics regression model predicts the membership of only two categorical outcomes, with predictor variables that can be categorical or continuous (Field, 2009). This research wanted to estimate if the MNEs would select a particular location, as a function of various attributes, including firm and country level attributes. The construction of the dependent variable, as explained in the previous section shows that it is binary, and takes a value of 1 if firm *'x'* invests in the country *'i'* at a time *'t'*, otherwise, it is 0. Considering this construction of the dependent variable, the logistics regression (with panel data estimates) was ascertained to be the most appropriate methodology for this research. Previous comparable research studies had also used similar methods (Berry et al., 2010; Jandhyala, 2013; Terpstra & Yu, 1988). A brief review of the methods adopted by various researchers is outlined in Table 4.3.

The following expression can represent the logistic regression equation.

$$P(Y) = \frac{1}{1 + e^{-(b_0 + b_1 X_{1i} + b_2 X_{2i} + \ldots + b_n X_{ni})}}$$

In the above equation, $P(Y)$ is the probability of firm entry, b_0 is the constant, X_1 is the independent variable – prior FDI by other home country firm, b_1 is the coefficient attached to the independent variable X_1, and e is the base of natural logarithms and the other coefficients from a linear combination. Therefore, the resulting values from the equation vary between 0 and 1. Logistic regression uses the maximum likelihood estimation (MLE) technique to determine the most likely coefficients for the determinants. The MLE technique obtains estimates numerically, after an iterative process.

5 DATA ANALYSIS AND RESULTS

5.1 INTRODUCTION

After discussing the methodology to collect and analyse the data in the previous chapter, this chapter presents the results of the data analysis. The chapter begins by showing how the assumptions of logistic regression are assessed and satisfied. This is followed by a section on the identification and treatment of outliers. After discussing outliers, I provide an overview of basic descriptive statistics and correlations among variables. This is followed by the main regression results and additional tests. Lastly, various sensitivity and robustness tests are presented.

5.2 ASSESSING THE ASSUMPTIONS OF A LOGIT MODEL

Logistics analysis has certain assumptions, and if these assumptions are violated and not considered, then the resulting analysis could be biased. The two critical assumptions of logistics regression are; linearity and multicollinearity (Field, 2009). Following paragraphs describe these assumptions and their test results. For all tests and analysis, I used STATA software version 15.1.

5.2.1 ASSUMPTION OF LINEARITY

The first assumption of linearity assumes a linear relationship between continuous predictor variables and the logit of the outcome variable. To assess the linearity of the continuous variables with respect to the logit of the dependent variable, the Box and Tidwell (1962) procedure was adopted. Field (2009) explains this procedure and suggests examining if any of the interaction terms between the (continuous) predictor terms and its natural-log transformation is significant. A non-significant coefficient with $p > 0.05$ indicates that the relationship is linear, and the assumption is satisfied. On the contrary, a significant coefficient might indicate a non-linear relationship and violate the assumption of linearity. To assess this assumption, a binary logistics regression is carried out.

Based on the method suggested by Field (2009), I conducted the binary logistics regression, with all predictor and interaction terms included in the equation. The results in

Table 5.1 show that none of the interaction terms was significant. This indicated that all continuous independent variables were linearly related to the logit of the dependent variable, thus satisfying the linearity assumption. Results of the linearity test (interaction terms between non-transformed continuous variables and their natural logs (LN)) are presented in Table 5.1.

Table 5.1 - Box Tidwell test results for linearity assumption

Variables	p>|z|
Prior FDI * LN Prior FDI	0.664
Firm age * LN Firm age	0.202
Firm ROA * LN Firm ROA	0.413
R&D intensity * LN R&D intensity	0.654
Firm int'l experience * LN Firm int'l experience	0.239
Rate of inflation * LN Rate of inflation	0.400
GDP growth rate * LN GDP growth rate	0.516
TMT size * LN TMT size	0.419
TMT average education * LN TMT average education	0.612
TMT average tenure * LN TMT average tenure	0.622
TMT average age * LN TMT average age	0.670
TMT int'l experience * LN TMT int'l experience	0.201
TMT int'l experience diversity * LN TMT int'l experience diversity	0.616
TMT tenure diversity * LN TMT tenure diversity	0.521
TMT education diversity * LN TMT education diversity	0.792
TMT functional diversity * LN TMT functional diversity	0.528

5.2.2 ASSUMPTION OF MULTICOLLINEARITY

The second assumption of logit regression is the (absence of) multicollinearity. Multicollinearity is a problem where predictors are highly correlated with each other. If predictors are highly correlated with each other, then it becomes difficult to assess the predictor, that is producing an effect on the outcome variable. In order to check for multicollinearity, researchers recommend checking for Variance Inflation Factor (VIF) between all variables (Field, 2009; Nielsen & Raswant, 2018). The VIF statistics is an indication of how much the variance of the coefficient is being inflated because of

multicollinearity. A VIF value higher than *10* is a matter of concern and could indicate multicollinearity (Hair, Black, Babin, & Anderson, 2014, p. 200). After generating VIF values for the variables (presented in Table 5.2), it can be observed that the highest value was less than *3*, thus indicating that multicollinearity was not an issue.

Table 5.2 - VIF results for testing multicollinearity assumption

Variable	VIF	1/VIF
Prior FDI	1.82	0.55
Firm age	1.76	0.57
Firm ROA	1.12	0.90
R&D intensity	1.05	0.95
Firm int'l experience	1.38	0.73
Prior presence	1.47	0.68
Int'l investment agreement	1.24	0.81
Rate of inflation	1.65	0.61
GDP growth rate	1.28	0.78
TMT size	1.68	0.60
TMT average education	1.16	0.86
TMT average tenure	1.89	0.53
TMT average age	1.30	0.77
TMT int'l experience	1.65	0.61
TMT int'l experience diversity	2.04	0.49
TMT tenure diversity	1.21	0.83
TMT education diversity	1.19	0.84
TMT functional diversity	1.36	0.73

In addition to observing the VIF values, a correlations matrix is also used to assess the relationship between all variables. The resulting matrix produces Pearson's Correlation Coefficient values to assess the association between every pair of variables. The values for the coefficient vary over a range of +1 through 0 to -1. A value of this coefficient greater than ± 0.7 indicates a problem of multicollinearity (Hair et al., 2014, p. 200). Table 5.3 summarises the correlation coefficients between all variables in the dataset.

Table 5.3 - Descriptive Statistics and Pairwise Correlations Table

Variables	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Entry	0.03	0.169	1.000								
(2) Prior FDI	394.91	331.82	0.128*	1.000							
(3) Firm age	65.455	48.029	0.046*	0.001	1.000						
(4) Firm ROA	0.034	0.145	0.001	0.007	0.185*	1.000					
(5) R&D intensity	0.212	3.403	-0.006	-0.002	-0.047*	-0.167*	1.000				
(6) Firm int'l experience	76.554	108.38	0.050*	0.001	0.289*	0.102*	-0.036*	1.000			
(7) Prior presence	0.444	0.497	0.113*	0.379*	0.151*	0.080*	-0.043*	0.384*	1.000		
(8) Int'l investment agreement	0.636	0.481	-0.135*	-0.242*	0.000	0.000	0.000	0.000	-0.067*	1.000	
(9) Rate of inflation	4.44	4.269	0.029*	-0.501*	-0.004	0.000	-0.008	-0.003	-0.135*	-0.120*	1.000
(10) GDP growth rate	4.706	3.497	0.131*	0.015	0.006	0.091*	0.003	0.003	0.046*	-0.324*	0.331*
(11) TMT size	9.084	3.844	0.050*	0.000	0.275*	0.172*	-0.042*	0.293*	0.171*	0.000	0.001
(12) TMT average education	16.949	1.933	0.009	0.003	0.068*	-0.007	0.054*	0.089*	0.064*	0.000	-0.009
(13) TMT average tenure	11.892	6.704	0.071*	0.002	0.503*	0.221*	-0.071*	0.310*	0.174*	0.000	0.002
(14) TMT average age	52.117	3.28	0.023*	0.008	0.238*	0.122*	-0.081*	0.150*	0.092*	0.000	-0.014
(15) TMT int'l experience	5.645	4.32	0.044*	0.002	0.267*	0.068*	-0.059*	0.144*	0.148*	0.000	-0.003
(16) TMT int'l experience diversity	4.183	4.22	0.065*	0.002	0.400*	0.138*	-0.038*	0.207*	0.174*	0.000	-0.004
(17) TMT tenure diversity	0.355	0.403	0.010	-0.002	0.318*	0.084*	0.050*	0.138*	0.080*	0.000	-0.001
(18) TMT education diversity	0.516	0.167	0.017	0.000	-0.085*	-0.016	-0.010	0.061*	0.077*	0.000	0.003
(19) TMT functional diversity	0.72	0.091	0.012	0.001	0.127*	0.075*	-0.011	0.146*	0.146*	0.000	-0.003

Variables	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**	**(15)**	**(16)**	**(17)**	**(18)**	**(19)**
(10) GDP growth rate	1.000									
(11) TMT size	0.003	1.000								
(12) TMT average education	0.006	-0.071*	1.000							
(13) TMT average tenure	0.002	0.354*	-0.030*	1.000						
(14) TMT average age	0.025*	0.088*	-0.095*	0.420*	1.000					
(15) TMT int'l experience	0.005	0.207*	0.274*	0.165*	0.015	1.000				
(16) TMT int'l experience diversity	0.007	0.460*	0.109*	0.342*	0.152*	0.577*	1.000			
(17) TMT tenure diversity	-0.001	0.143*	-0.023*	-0.003	-0.041*	0.082*	0.151*	1.000		
(18) TMT education diversity	-0.008	0.111*	0.104*	0.037*	0.120*	0.022*	0.102*	-0.100*	1.000	
(19) TMT functional diversity	-0.008	0.350*	0.005	-0.012	0.102*	0.072*	0.092*	0.117*	0.290*	1.000

** shows significance at the .05 level*

From Table 5.3, it can be seen that the values of correlation coefficients were below the threshold of ± 0.7, few noticeable correlation coefficients were observed in certain cases, i.e. between *TMT int'l experience* and *TMT int'l experience diversity* (*0.577*), *TMT average tenure* and *Firm age* (*0.503*), and *Rate of inflation* and *Prior FDI* (*-0.501*). This is quite understandable as firms with managers who have extensive (tenures of) international experience may also have experience in a variety of countries. Likewise, old and established firms may have long-serving TMT members as well. Since none of the values reached the threshold of *0.7*, hence, it was assessed that multicollinearity was not a concern in the dataset.

5.3 OUTLIER DETECTION AND TREATMENT

Outliers are defined as observations that are substantially different from other observations (Hair et al., 2006). It is essential to identify any extreme observation as it can bias the mean and standard deviation, as well as significantly impact the regression model (Field, 2009). The two critical aspects of outlier management are outlier detection and treatment. For the identification of outliers, I used box plots to assess the extent of outlying observations for each variable. Nearly all variables were found to have some extreme observations. For outlier treatment, I analysed extreme values based on three categories; *Error outliers*, *Interesting outliers* and *Influential outliers* (Aguinis & Edwards, 2014). In the following section, I use these three categories to share the description and treatment of outliers.

Error outliers are defined as *"data points that lie at a distance from other data points because they are the result of inaccuracies"* (Aguinis, Gottfredson, & Joo, 2013, p. 275). These outliers could be caused by errors in coding, transcription or sampling procedure, etc. I examined all the distant observations and made sure that their values were not because of any mistake or error.

Interesting outliers are defined as *"accurate (i.e. non-error) data points that lie at a distance from other data points and may contain valuable or unexpected knowledge"* (Aguinis et al., 2013, p. 275). Various techniques like deletion, transformation or score-changing can be used to correct the bias arising because of outliers (Field, 2009). The literature, however, also cautions against unnecessary deletion of outliers (Aguinis & Edwards, 2014; Aguinis et al., 2013; Hair et al., 2006). Hair and colleagues recommend that outliers should be retained in the analysis unless it can be verified that they are not representative of the population. Likewise,

Chatterjee and Hadi (2006) suggest that outliers should not be removed blindly, as they might be analytically informative and could also indicate towards non-linear relationships. With this background, I evaluated the extreme points and their distribution; and assessed them to be representative of the population. Considering this, I did not delete any extreme observation. However, in the case of certain variables (*Prior FDI* and *TMT int'l experience*), I used log-transformation to shrink the distribution of their tails and avoid concerns of heteroscedasticity.

Influential outliers are the data points whose presence could significantly influence the model-fit or parameter estimates (Aguinis & Edwards, 2014). Influential outliers can be identified by analysing their residuals in the regression analysis. Residuals are defined as the individual differences between observed and estimated covariance terms (Hair et al., 2006).

Field (2009) mentions various parameters and their respective thresholds to assess the nature and magnitude of residuals. In this regard; *standardised residuals*, *DFBeta* and *leverage* statistics can be used for determining the extent of residuals, influence and leverage, respectively. *Standardised residual* is defined as the unstandardized residual term divided by the standard deviation. *DFBeta* is the *"difference between a parameter estimated using all cases and estimated when that one case is excluded"* (Field, 2009, p. 218). *Leverage* (also known as *hat*) measures the influence of the observed value of the outcome over predicted values. Leverage values range between 0 and 1 (where 0 means no influence and 1 means complete influence). Average leverage is defined as $(k+1)/n$, where k is the number of predictors in the model and n is the number of observations. Field (2009, p. 293) recommends various cut-off points for these statistics, beyond which the case should be examined for being a potential influencer. In this regard, the threshold for standardised residuals is that at least *95%* values should be between the absolute value of *2*. For DFBeta, the values should be less than *1*. Similarly, for leverage, the observations with values higher than $2(k+1)/n$ should be examined for being potential influencers (Hoaglin & Welsch, 1978).

In the post-estimation menu, within STATA, the panel-data logistics command (*xtlogit*) does not allow to predict outliers. To overcome this, I conducted the standard logistics regression command (*logistics*) to compute coefficients for the final model to investigate any residuals. The results from the *logistics* command (presented in Model 18 in Table 7.2 in the Appendix chapter) were very similar to that of the *xtlogit* command (Model 7 in Table 5.4).

Chatterjee and Hadi (2006) recommend that outliers with high leverage should be identified and then examined to see if they are also influential. I used similar criteria and considered an observation to be influential if it did not meet the threshold on more than one parameter, as described above. None of the observations met this criterion, and hence, no significant influencers were identified.

5.4 MAIN REGRESSION ANALYSIS

The dependent variable in this research was the firm *Entry*. *Entry* was given a value of 1 if the firm '*x*' invested in the country '*i*' at a time '*t*', otherwise it was 0. Given the binary and panel nature of the data, logistic regression (with panel variable) was used to analyse the impact of hypothesised relationships. In STATA version 15.1, the *xtlogit* command was used for the logistic regression, and the panel variable (*xtset*) was set with the *firm identification number*. The *xtlogit* command can be used for panel data logistic regressions with random-effects, conditional fixed-effects or population-averaged logit models.

5.4.1 TWO-STAGE HECKMAN TEST MODELS

Since this research is based on observational data, therefore randomised controlled experiments are not possible. In research like this, IB researchers face concerns of "self-selection" (Reeb, Sakakibara, & Mahmood, 2012). To rule out concerns of self-selection and other sampling biases, two-stage Heckman test (or commonly known as Selection models) are recommended (Wolfolds & Siegel, 2019). Cuddeback, Wilson, Orme, and Combs-Orme (2004) define Sample Selection models as a means to *"...provide a quantitative basis for examining the presence of selection bias and the nature of the effects of that bias on the substantive findings"* (p. 27). Sample Selection models are generally composed of two models/steps. The Selection model is used to detect any selection bias, whereas, the Outcome (or substantive) model is used to assess the main question of interest. More precisely, Selection model (stage 1) evaluates the decision to participate – based on individual characteristics, whereas the Outcome model (stage 2) incorporates the exogenous characteristics from the selection model as a function called *Inverse Mills Ratio* or *Heckman's Lambda* (Wolfolds & Siegel, 2019). To counter any concerns for endogeneity, this technique is the most commonly

used in IB studies, (Reeb et al., 2012). Past FDI researchers like Tuschke et al. (2014) and Ang et al. (2018) have also adopted a similar methodology in their studies.

In order to conduct a two-stage regression model, in the first step, the probability of selection of an endogenous variable is calculated. In this stage, I considered *Firm int'l experience* to be potentially endogenous. It is possible that certain large firms with high international experience also have high visibility and therefore could be self-selected in the sample. The select model uses probit regression analysis and requires the dependent variable to be dichotomous. Therefore, to consider *Firm int'l experience* variable as potentially endogenous, I created a new dichotomous variable from the existing one by considering higher (or lower) values than the mean and used it as a dependent variable in the select model stage. I also used several instrumental variables in the select model, including; *HQ City Population*, *HQ City Unemployment Rate*, *HQ City number of Airports*, *HQ City number of Heliports* and *Colleges and Universities in the HQ City*. My rationale for using these variables was that bigger cities with better connectivity and educational opportunities could attract more prominent companies, and at the same time these variables were not expected to influence the foreign location choice decision, the dependent variable in the outcome equation (Bettis, Gambardella, Helfat, & Mitchell, 2014). Next, I calculated the *Inverse Mills Ratio*, which was then inserted in the outcome equation. Table 5.4 indicates a non-significant *Inverse Mills Ratio*. This shows that endogeneity was not an issue in the sample. In order to check the potential endogeneity of TMT-related variables, additional tests were conducted and discussed in section 5.6.

5.4.2 MODEL SPECIFICATION

The regression results for firm *Entry* (the outcome model) are presented in Table 5.4. In this table, various variables are incrementally added in subsequent models. Model 1 is the baseline model, that only includes the control variables. In Model 2 to Model 6, the TMT-related variables of interest are incrementally added, and their interaction effect is examined. Model 7 is the full model, in which all variables are added at the same time. The results for stage 1/selection model are also presented in Table 5.4.

Various goodness of fit statistics were used to assess the suitability of the final model. In this regard, statistics like Wald chi-square, log likelihood, Akaike Information Criterion (AIC) and likelihood ratio test were used to assess the suitability of adding the variables. In

Table 5.4, it can be assessed that a Wald chi-square statistic improved from Model 1 (*506.36*) to Model 7 (*519.49*). Moreover, the Wald chi-square statistic was statistically significant for all models. This shows that the final model (Model 7) is considerably better than the null model as well as the baseline model (Model 1), and the added variables contribute to explaining the phenomenon. Also, it can also be observed in Table 5.4 that Model 7 has the highest value of log-likelihood *-1376.40*, thus representing the best fit among all other models. Likewise, the AIC statistics of various models were also compared to assess the fit of the model. Table 5.4 also illustrates that the Model 7 (final model) had an AIC of *2820.80*, which was lower than the AIC of Model 1 (baseline model), which was *2824.00*. This indicates a better fit for Model 7 when compared with Model 1. This also indicates that the prediction of foreign *Entry* improves after including all the variables in the model.

In addition to the above, I conducted the likelihood ratio test (by using the *lrtest* command in STATA), between Model 1 and Model 7. The output from the likelihood ratio test is considered more reliable as compared to that of the Wald chi-square test (Hair et al., 2006). The resulting likelihood ratio test yields a value of *23.20*, following chi-square distribution with ten degrees of freedom; ($p < 0.05$). This showed that adding moderating variables (in Model 7) added significantly to the baseline model.

5.4.3 HAUSMAN TEST FOR SELECTION OF FIXED VS RANDOM-EFFECTS MODEL

With the panel nature of data, I also assessed if a fixed-effects model was more appropriate than a random-effects model. The fixed-effects model assumes to capture all constant firm-specific effects, whereas a random-effects model assumes that firm-specific effects are randomly present with a normal distribution. Because of the different assumptions of the random and fixed effects models, the results from the fixed effects model cannot be generalised to a time-period outside the sample, whereas the results from the random effects model can be extrapolated to extended time-periods (Li & Greenwood, 2004). In order to assess whether a fixed-effects or a random-effects model is appropriate, a Hausman (1978) specification test is used. The Hausman test checks for consistency of estimation results between fixed and random-effects models. The test assesses if there is a correlation between the unique errors and the regressors in the model. A significant test result ($p < 0.05$) indicates that the fixed effects model is more appropriate.

By using the *hausman* command in STATA, a Hausman test was conducted to compare the fixed effects model with the random effects model. The test results indicated that the random effects model was more appropriate than a fixed effects model ($\chi 2 = 19.63, p > 0.1$). Based on these results, all reported logistic regression results in Table 5.4 and the following tables are based on the random-effects model, unless specified otherwise.

5.4.4 RESULTS OF LOGISTIC REGRESSION

The results of the logistic regression are interpreted in the following sub-sections. Following sub-sections are arranged according to the variables of interest in the hypotheses.

5.4.4.1 H1: THE EFFECT OF PRIOR FDI

Hypothesis H1 predicted that *Prior FDI* from other firms leads to firm *Entry*. It can be assessed from Table 5.4 that the effect of *Prior FDI* received strong support in all models. Model 1 (with control variables only) indicates that the effect of *Prior FDI* is positive and significant ($\beta = 0.769, p < 0.01$). Likewise, the final model (Model 7) also shows that the effect of *Prior FDI* is positive and significant ($\beta = 0.807, p < 0.01$). This indicates, that when other variables are held constant, an increase in one unit of *Prior FDI* increases the odds of *Entry* by *2.24* times, as $e^{0.807} = 2.24$. Therefore, H1 was supported.

5.4.4.2 H2: MODERATING EFFECT OF TMT INTERNATIONAL EXPERIENCE

Hypothesis H2 predicted that *TMT int'l experience* weakens the effect of *Prior FDI* on foreign market *Entry*. The effect of *TMT int'l experience* on *Prior FDI* was not supported in (the incremental model) Model 2 ($\beta = -0.017, p > 0.1$), as well as in (the final model) Model 7 ($\beta = 0.052, p > 0.1$). Therefore, H2 was not supported.

5.4.4.3 H3: MODERATING EFFECT OF TMT INTERNATIONAL EXPERIENCE DIVERSITY

Hypothesis H3 predicted that *TMT int'l experience diversity* weakens the effect of *Prior FDI* on foreign market *Entry*. The effect of *TMT int'l experience diversity* on *Prior FDI* was not supported in Model 3 ($\beta = -0.013, p > 0.1$), as well as in the Model 7 ($\beta = -0.019, p > 0.1$). Thus, H3 was not supported.

5.4.4.4 H4: MODERATING EFFECT OF TMT TENURE DIVERSITY

Hypothesis H4 postulated that *TMT tenure diversity* among TMT members will weaken the effect of *Prior FDI* on firm *Entry*. It can be assessed from Table 5.4 that this interaction effect is significant, with negative beta coefficient ($\beta = -0.314, p < 0.1$) and ($\beta = -0.301, p < 0.1$) in Model 4 and Model 7, respectively. An interpretation of the final model (Model 7) indicates that one unit increase in *TMT tenure diversity* will decrease the effect of *Prior FDI* on firm *Entry* by *26.0%*, as $e^{-0.301} = 0.7400$.

I used the *marginsplot* command in STATA, to plot the interaction between *Prior FDI* and *TMT tenure diversity* (at mean levels plus and minus 1 standard deviation (SD)) in Figure 5.1. The figure plots the predicted probability of *Entry*, at given values of *Prior FDI* and *TMT tenure diversity*. It can be observed that the probability curves are upward sloping, indicating that firms are more likely to enter a host country at higher levels of *Prior FDI*. Moreover, it can also be observed that the solid line for higher tenure diversity is less steep than the dashed line for lower levels of diversity. The flattening effect of the solid line suggests that the positive relationship between *Prior FDI* and the probability of *Entry* is less pronounced when *TMT tenure diversity* is high. Given this interpretation and the support for the effect of *TMT tenure diversity* on *Prior FDI* in Model 4 and 7, it can be concluded that H4 is supported.

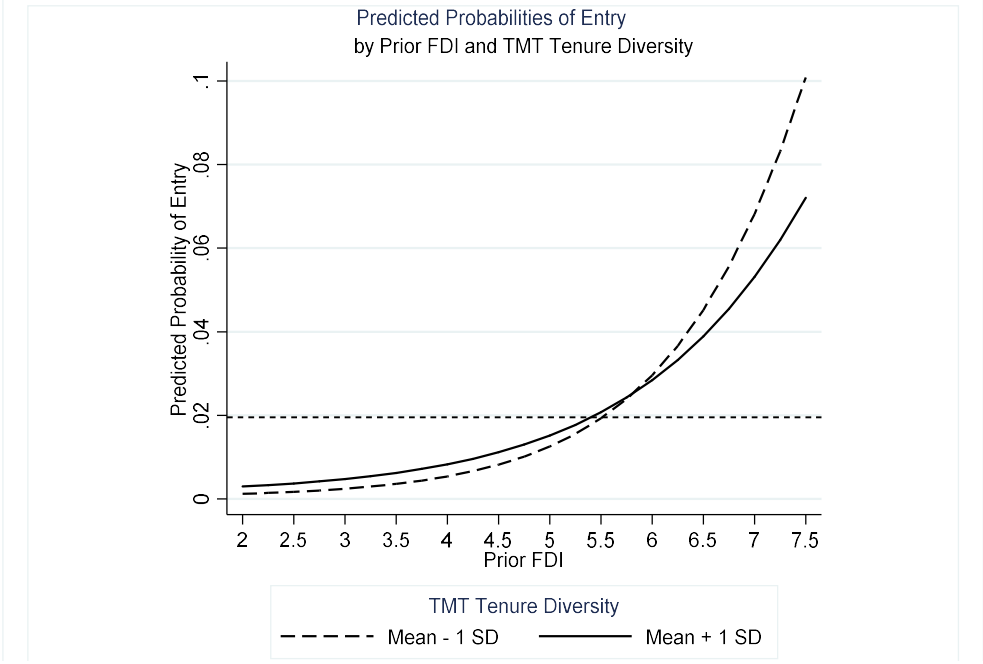

Figure 5.1 - Moderating impact of TMT tenure diversity on Prior FDI

Table 5.4 - Results of Main Regression Analysis in Full Sample

Variables	Model 1 Entry	Model 2 Entry	Model 3 Entry	Model 4 Entry	Model 5 Entry	Model 6 Entry	Model 7 Entry
Prior FDI	0.769***	0.786***	0.806***	0.785***	0.761***	0.764***	0.807***
	(0.101)	(0.104)	(0.105)	(0.102)	(0.101)	(0.101)	(0.106)
Firm age	-0.001	-0.001	-0.002	-0.000	-0.000	-0.000	-0.001
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Firm ROA	-0.872**	-0.858**	-0.860**	-0.862**	-0.848**	-0.877**	-0.828**
	(0.362)	(0.362)	(0.357)	(0.362)	(0.361)	(0.362)	(0.358)
R&D intensity	-0.015	-0.012	-0.015	-0.014	-0.015	-0.015	-0.012
	(0.027)	(0.027)	(0.027)	(0.027)	(0.027)	(0.027)	(0.027)
Firm int'l experience	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Prior presence	0.743***	0.700***	0.691***	0.738***	0.746***	0.759***	0.696***
	(0.148)	(0.149)	(0.148)	(0.149)	(0.148)	(0.149)	(0.151)
Int'l investment agreement	-0.677***	-0.674***	-0.676***	-0.675***	-0.680***	-0.684***	-0.682***
	(0.151)	(0.151)	(0.151)	(0.151)	(0.151)	(0.151)	(0.152)
Rate of inflation	0.085***	0.085***	0.086***	0.085***	0.084***	0.084***	0.085***
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)

GDP growth rate	0.113***	0.113***	0.112***	0.113***	0.113***	0.112***	0.111***
	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)
TMT size	0.032**	0.026	0.017	0.033**	0.030*	0.033*	0.018
	(0.016)	(0.016)	(0.017)	(0.016)	(0.016)	(0.017)	(0.018)
TMT average education	0.039	0.020	0.033	0.038	0.036	0.038	0.018
	(0.033)	(0.033)	(0.032)	(0.033)	(0.032)	(0.033)	(0.032)
TMT average tenure	0.056***	0.054***	0.053***	0.054***	0.056***	0.056***	0.052***
	(0.012)	(0.011)	(0.011)	(0.012)	(0.012)	(0.012)	(0.012)
TMT average age	-0.005	-0.005	-0.008	-0.006	-0.011	-0.006	-0.015
	(0.023)	(0.022)	(0.022)	(0.022)	(0.023)	(0.023)	(0.022)
Industry Dummies	Included	Included	Included	Included	Included	Included	Included
Year Dummies	Included	Included	Included	Included	Included	Included	Included
TMT int'l experience		0.296					-0.180
		(0.487)					(0.569)
Prior FDI * TMT int'l experience		-0.017					0.052
		(0.076)					(0.090)
TMT int'l experience diversity			0.117				0.134
			(0.076)				(0.095)
Prior FDI * TMT int'l experience diversity			-0.013				-0.019
			(0.012)				(0.015)

TMT tenure diversity				1.838			1.739
				(1.153)			(1.141)
Prior FDI * TMT tenure diversity				-0.314*			-0.301*
				(0.183)			(0.181)
TMT education diversity					-4.777*		-3.353
					(2.785)		(2.826)
Prior FDI * TMT education diversity					0.873**		0.637
					(0.445)		(0.451)
TMT functional diversity						-8.743**	-7.882**
						(3.901)	(3.920)
Prior FDI * TMT functional diversity						1.406**	1.290**
						(0.638)	(0.642)
Inverse Mills Ratio	-0.451	-0.227	-0.373	-0.479	-0.340	-0.436	-0.150
	(0.431)	(0.432)	(0.419)	(0.435)	(0.432)	(0.431)	(0.433)
Constant	-10.426***	-10.302***	-10.232***	-10.477***	-10.192***	-10.384***	-10.004***
	(1.504)	(1.494)	(1.493)	(1.508)	(1.505)	(1.514)	(1.505)
Number of Observations	12,771	12,771	12,771	12,771	12,771	12,771	12,771
Wald Chi Square	506.36733	512.85109	509.14358	505.47449	512.81258	508.88896	519.49806
Log Likelihood	-1388.0025	-1384.1328	-1384.2995	-1386.3549	-1384.7731	-1385.9997	-1376.4014
AIC	2824.005	2820.2656	2820.599	2824.7097	2821.5463	2823.9995	2820.8028

Standard errors in parentheses

**** p<0.01, ** p<0.05, * p<0.1*

Selection Models

HQ City Population	0.071***	0.071***	0.071***	0.071***	0.071***	0.071***	0.071***
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
HQ City Unemployment Rate	-0.018***	-0.018***	-0.018***	-0.018***	-0.018***	-0.018***	-0.018***
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
HQ City (No. of Airports)	-0.104***	-0.104***	-0.104***	-0.104***	-0.104***	-0.104***	-0.104***
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
HQ City (No. of Heliports)	-0.003	-0.003	-0.003	-0.003	-0.003	-0.003	-0.003
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
No. of Colleges and Universities within HQ City	0.008***	0.008***	0.008***	0.008***	0.008***	0.008***	0.008***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Constant	-1.110***	-1.110***	-1.110***	-1.110***	-1.110***	-1.110***	-1.110***
	(0.106)	(0.106)	(0.106)	(0.106)	(0.106)	(0.106)	(0.106)

Standard errors in parentheses

**** p<0.01, ** p<0.05, * p<0.1*

The change in the log-likelihood ratio from *-1388.00* (in Model 1) to *-1386.35* (in Model 4) suggests that when *TMT tenure diversity* is added into the equation, the overall fit of the model improves. Likewise, the value for log-likelihood increased to *-1376.40* in Model 7. While comparing Model 1 to Model 4, the Wald Chi-square and AIC statistics do not improve incrementally. However, both statistics improve significantly in Model 7. When compared with Model 1, AIC improves from *2824.00* to *2820.80*. Likewise, Wald Chi-square improves from *506.36* to *519.49*. These statistics indicate that when *TMT tenure diversity* is added along with other variables, the overall prediction of the model improves.

5.4.4.5 H5: MODERATING EFFECT OF TMT EDUCATION DIVERSITY

Hypothesis H5 predicted that *TMT education diversity* would weaken the effect of *Prior FDI* on the firm's foreign *Entry*. It can be assessed from Table 5.4 that the predicted hypothesis for the interaction effect of *TMT education diversity* received no support. The effect was significant, with a positive coefficient in Model 5 ($\beta = 0.873, p < 0.05$). However, the effect became non-significant in the full model i.e. Model 7 ($\beta = 0.637, p > 0.1$). The non-significant results of the coefficient indicated that H5 was not supported.

5.4.4.6 H6: MODERATING EFFECT OF TMT FUNCTIONAL DIVERSITY

Hypothesis H6 predicted that *TMT functional diversity* would strengthen the effect of *Prior FDI* on firm *Entry*. Both models; incremental (Model 6) and full (Model 7) show that this hypothesis received strong support. The effect was significant in Model 6 ($\beta = 1.406, p < 0.05$), as well as in Model 7 ($\beta = 1.290, p < 0.05$). If we interpret results in Model 7, then it means that one-unit increase in *TMT functional diversity* would increase the odds of *Prior FDI* on *Entry* by *3.63* times, as $e^{1.290} = 3.632$. These results are in line with the hypothesised relationships.

Another interesting insight from the Table 5.4 is the coefficient for *TMT functional diversity* which is significant in Model 6 ($\beta = -8.743, p < 0.05$) and Model 7 ($\beta = -7.882, p < 0.05$). Interpreting the results of Model 7, mean that for a one-unit change in *TMT functional diversity,* the odds of foreign *Entry* were reduced by *0.000401* times, as $e^{-7.882} = 0.000401$. These results also indicate a direct and negative relationship between *TMT functional diversity* and foreign *Entry.*

To reflect upon the incremental effect of *TMT functional diversity*, I refer to various goodness of fit statistics. The change in the log-likelihood ratio from *-1388.00* (in Model 1) to *-1385.99* (in Model 6) suggests that when *TMT functional diversity* is added into the equation, the overall fit of the model improves. Likewise, the value for log likelihood increased to *-1376.40* in Model 7. While comparing Model 1 to Model 6, the Wald Chi-Square and AIC statistics also improve. When compared with Model 1, AIC improves from *2824.00* to *2823.99*. Likewise, Wald Chi-Square improves from *506.36* to *508.88*. These statistics indicate that when *TMT functional diversity* and its interaction term are added in the equation, the overall prediction of the model improves.

In Figure 5.2, I plotted the interaction between *Prior FDI* and *TMT functional diversity* (at mean levels plus and minus 1 standard deviation (SD)). The portion of the S-shaped curve plots the predicted probability of *Entry*, at given values of *Prior FDI* and *TMT functional diversity*. It can be observed that the solid line (for firms with higher functional diversity) is steeper than the dashed line (for firms with low functional diversity). These results correspond with a positive coefficient of the *TMT functional diversity* interaction term and show that the effects of *Prior FDI* are more pronounced on foreign *Entry* with higher *TMT functional diversity*. This interpretation along with significant results indicate that H6 is supported.

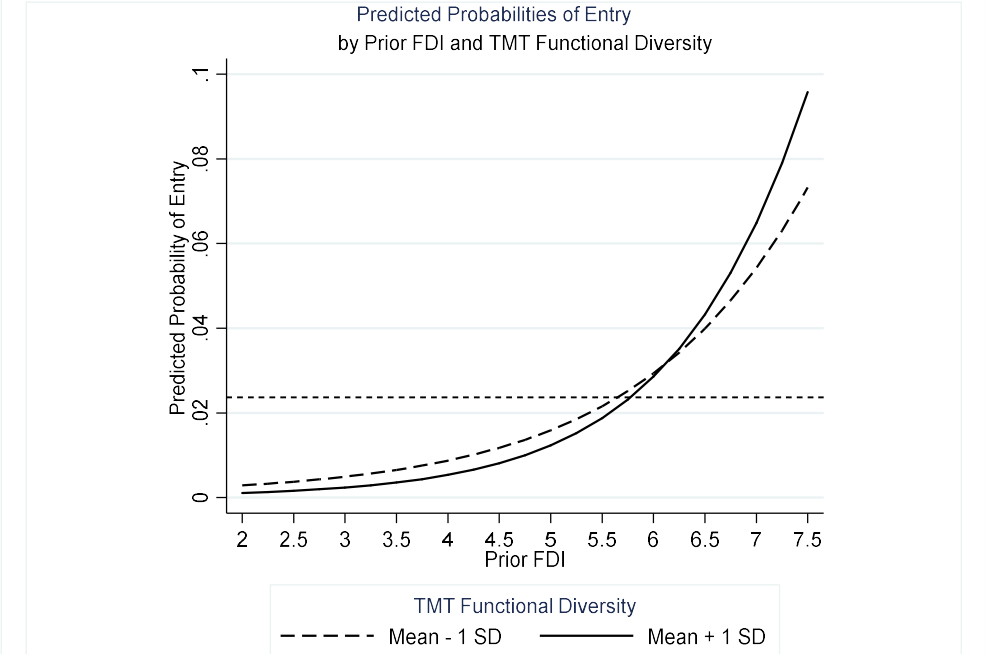

Figure 5.2 - Moderating impact of TMT functional diversity on Prior FDI

5.4.4.7 CONTROL VARIABLES

Control variables were tested in Model 1 and all subsequent models. The first control variable included in the equation was *Firm age*. It can be seen in Table 5.4 that the coefficient for *Firm age* was non-significant and negative in Model 1 ($\beta = -0.001, p > 0.1$) as well as in Model 7 ($\beta = -0.001, p > 0.1$). Although the expectation was that older firms would have more resources and experience, and therefore would be more willing to commit to international investments. However, the results do not allow to sufficiently conclude the same. Although unexpected, these results mirror the findings of past researchers who also could not establish the relationship between *Firm age* and FDI location choice of the firm (Guillén, 2002; Zhou & Guillén, 2015).

Amongst various control variables assessed in Model 1, it can be observed that *Firm ROA* had a negative and significant effect on foreign *Entry* ($\beta = -0.872, p < 0.05$). The effect of *Firm ROA* remained significant with a negative coefficient in the final Model 7 as well ($\beta = -0.828, p < 0.05$). Interpreting the results of Model 7, this meant that for a one-unit increase in *Firm ROA*, the odds of foreign *Entry* were reduced by *56.30%* as $e^{-0.828} = 0.436$. In this case, however, the sign of the beta coefficient was unexpected, as the probability of foreign *Entry* was expected to increase with *Firm ROA*. It is possible that even in times of economic distress in the US, firms wanted to invest in Asia-Pacific economies – many of which were emerging at the time. Although these results were unexpected, the relationship between ROA and firm internationalisation activities has not been consistent in the literature. While some researchers like, Sanders and Carpenter (1998) and Cui, Meyer, et al. (2014) have found a positive relationship between ROA and firm internationalisation, others like Lu, Liu, Wright, et al. (2014) and Carpenter and Fredrickson (2001) could not find an association between ROA and the firm's internationalisation activities.

The findings from Table 5.4 also point towards an inconclusive relationship between *R&D intensity* and firm *Entry*. The results point to a negative, and non-significant relationship between the two variables. Initially, it was ascertained that firms with higher technological capacity and advantages could have greater FDI. Therefore, *R&D intensity* was used as a proxy for such advantages. The results, however, do not support to conclude this. The literature on FDI location choice also points towards mixed support for *R&D intensity*. While some like Delios and Henisz (2003) and Pak and Park (2005) were able to find a positive relation between

R&D intensity and firm's foreign *Entry*, others like Berry et al. (2010) and Banalieva and Dhanaraj (2013) could not establish a conclusive association between the two.

The findings from Table 5.4 also point towards an inconclusive result between *Firm int'l experience* and firm *Entry*. The relationship remained non-significant in Model 1 ($\beta = -0.000, p > 0.1$) as well as in Model 7 ($\beta = -0.000, p > 0.1$). The organisational learning literature relies on the conjecture that past experience in international settings encourages firms to engage in FDI activities (Delios & Beamish, 1999; Erramilli, 1991). The results of this research do not provide enough evidence to support this. One reason for this finding could be that firms may prefer to use specific or similar experience over generic international experiences for future investment strategies (Perkins, 2014). It is possible that while firms learn from their international experiences, but the host country experience is considered most relevant in FDI decisions.

Results from Table 5.4 also indicate that a positive relationship exists between *Prior presence* and firm *Entry*. It can be observed in Model 1 that *Prior presence* was highly significant with a positive beta coefficient ($\beta = 0.743, p < 0.01$). Likewise, the effect of *Prior presence* remained highly significant when other variables are added to the equation ($\beta = 0.696, p < 0.01$). This meant that when firms had a prior presence at host locations, the odds of foreign *Entry* were increased by *2.00* times, as $e^{0.696} = 2.005$. Locations which are previously tried and tested are more likely to be selected for future investments. These results were well aligned with the literature, which supports the role of host market experience in foreign entry decisions (Davidson, 1980; Henisz & Delios, 2001).

Table 5.4 also illustrates that *Int'l investment agreement* also had an unexpected and negative effect on foreign *Entry* in all models. It can be observed in Model 1 that *Int'l investment agreement* was highly significant with a negative beta coefficient ($\beta = -0.677, p < 0.01$). Likewise, similar results are reported in the Model 7 ($\beta = -0.682, p < 0.01$). Unlike what was expected, this meant that when countries had an *Int'l investment agreement* in place, the odds of foreign *Entry* were reduced by *49.4%*, as $e^{-0.682} = 0.505$. This finding was surprising since bilateral investment agreements between countries were expected to encourage FDI (Albino-Pimentel et al., 2018; Jandhyala & Weiner, 2014). A closer look at the data suggests that both China and India did not have a bilateral investment arrangement with the US in the

period under consideration, whereas, China and India represented the majority of FDI locations selected within the Asia-Pacific region in this research. This indicates that in the sample, at the time of selecting a location for FDI, firms were less concerned with the additional regulatory support that they might have received because of the existence of an IIA.

Table 5.4 also illustrates that the *Rate of inflation* had a fairly consistent effect on foreign *Entry* in all models. *Rate of inflation* was significant with a positive beta coefficient in Model 1 ($\beta = 0.085, p < 0.01$) as well as in Model 7 ($\beta = 0.085, p < 0.01$). This meant that for every one-unit increase in inflation, the chances of foreign entry increased by *1.08* times as $e^{0.085} = 1.088$. Although traditionally, inflation has been negatively associated with FDI (Valli & Masih, 2014), the results indicate otherwise. While it may seem surprising, the positive association between FDI inflows and low amounts of inflation have also been recognised in the literature (Albino-Pimentel et al., 2018; Arbatli, 2011). In certain cases, a slight rise in inflation could also be linked to economic growth in the country (Sarel, 1996), thus attracting FDI.

Table 5.4 also shows that as predicted, the *GDP growth rate* had a positive effect on foreign *Entry* in all models. It can be observed that *GDP growth rate* was highly significant with a positive beta coefficient in Model 1 ($\beta = 0.113, p < 0.01$) as well as in Model 7 ($\beta = 0.111, p < 0.01$). If the coefficient of the final model is interpreted, then it means that if the host country's *GDP growth rate* increased by one unit, the odds of foreign *Entry* were increased by *1.117* times, as $e^{0.111} = 1.117$. This result is in line with expectations, as firms are more likely to invest in countries with high growth potential. These findings resonate with the eclectic view that firms prefer to invest in countries which offer specific location advantages, like market growth and potential (Dunning, 1980, 1988).

Results from Table 5.4 also show inadequate support to confirm a relationship between *TMT size* and firm's foreign *Entry*. The results are significant in Model 1 ($\beta = 0.032, p < 0.05$), Model 4 ($\beta = 0.033, p < 0.05$), Model 5 ($\beta = 0.030, p < 0.1$) and Model 6 ($\beta = 0.033, p < 0.1$). However, the results are inconclusive in the final model, Model 7 ($\beta = 0.018, p > 0.1$). Initially, it was expected that the size of the team would influence the heterogeneity of the group and hence would impact the decision-making of the top team. The mixed results, however, do not confirm this prediction. Results from previous TMT researchers including, Sambharya (1996)

and Tihanyi et al. (2000) also show that the size of the team was found not to be a statistically significant predictor of firm's internationalisation activities.

Results from Table 5.4 indicate an inconclusive relationship between *TMT average education* and a firm's foreign *Entry*. The coefficient for *TMT average education* remains non-significant in Model 1 ($\beta = 0.039, p > 0.1$), as well as in Model 7 ($\beta = 0.018, p > 0.1$). Initially, it was expected that with higher levels of education, the confidence and cognitive skill of the top team would increase and therefore, it would have a positive impact on a firm's foreign *Entry*. The results, however, do not provide evidence to back this claim. It is possible that with years of experience into the employment, the relative impact of education is overshadowed by more practical and employment-based learning. The literature also demonstrates mixed support for the education level of TMT in an international context. For example; Herrmann and Datta (2005) and Tihanyi et al. (2000) found significant effects of education levels on firm internationalisation, while Barkema and Shvyrkov (2007) and Richard, Wu, Markoczy, and Chung (2019) could not detect statistically significant results.

Table 5.4 also confirms that as expected, *TMT average tenure* had a positive effect on foreign *Entry* in all models. It can be observed in Model 1 that *TMT average tenure* was highly significant with a positive beta coefficient ($\beta = 0.056, p < 0.01$). Likewise, the results for the full model (Model 7) indicate that the effect of *TMT average tenure* remained positive and significant ($\beta = 0.052, p < 0.01$). This meant that when *TMT average tenure* increased by one unit, the odds of foreign *Entry* were increased by *1.05* times, as $e^{0.052} = 1.053$. These results indicate that TMT's average tenure in MNE was positively associated with firm *Entry*. These findings support the *learning curve* point of view for TMT tenure, as discussed in the literature review section. The results reflect that with increasing time spent in organisations, managers gain knowledge resources and use these for future FDI opportunities. It suggests that with the first-hand experience of working with the firm, its employees and products; longer-tenured managers can tap the right resources and encourage foreign entry. These findings mirror the existing literature, which supports the role of higher tenure with the internationalisation of the firms (Peyrefitte et al., 2002; Tihanyi et al., 2000).

Results from Table 5.4 also indicate an inconclusive relationship between *TMT average age* and firm's foreign *Entry*. The coefficient for *TMT average age* remains non-significant in

the baseline model, Model 1 (β = *-0.005, p > 0.1*), as well as in the final model, Model 7 (β = *-0.015, p > 0.1*). Initially, it was expected that as managers get older their risk appetite reduces and their urge to make bolder decisions erodes (Agnihotri & Bhattacharya, 2015; Tihanyi et al., 2000). Also, as these managers become more settled in their careers, they may tend to stick to safer decisions (Vroom & Pahl, 1971). Therefore, a negative association was expected between the average age of the top team and a firm's foreign *Entry*. Although the direction of the relationship was as predicted, the results remained non-significant. These findings, therefore, did not provide enough support to claim the negative relationship. The literature also suggests that the cognitive effects of age are not always statistically significant (Bantel & Jackson, 1989; Rivas, 2012). It is possible that cognitive effects of higher average age impact the decision and slow the decision-makers, but other cognitive resources like firm and team-level experiences dominate its impact.

5.5 ADDITIONAL ANALYSIS

In order to further analyse the interaction between mimetic reactions and TMT characteristics, I investigated the role of TMT variables, under altered conditions of uncertainty. Analysing with the additional sub-samples is essential for two main reasons. Firstly, when firms perceive less uncertainty about the host country, this may impact their desire to mimic other home country firms (Henisz & Delios, 2001). It is, therefore, prudent to investigate the effect of TMT variables under conditions of high and low uncertainty. Secondly, there is increasing evidence in the literature that points to carefully observing the context or the situation under which TMTs make decisions (Carpenter, 2002; Keck, 1997). To build this context, that reflects the highly ambiguous and crucial nature of the FDI decision, it is essential to factor in the heightened uncertainty that surrounds top managers.

In order to develop the context mentioned above (based on high/low uncertainty), I divided the sample based on *Prior presence* in the host country. IB researchers frequently divide/split the sample to gain further insights into the underlying relationships (Herrmann & Datta, 2005; Tan & Meyer, 2011). The first sub-sample included the firms that did not report *Prior presence* in the host country at *t-1*, whereas the second sub-sample was for firms which reported *Prior presence* in the host country at *t-1*. Dividing firms based on *Prior presence* in the host country is theoretically a sound approach, as firms which are already present in host

countries face considerably less uncertainty than the firms which do not have a prior presence in the host country (Davidson, 1980; Henisz & Delios, 2001). Likewise, the two contexts of high and low uncertainty provide a meaningful basis from which to compare the interactive effects of TMT related variables and imitation, under altered conditions. I prepared two models for each sub-sample; one with only control variables (Model 8 and Model 10); and one with TMT-related variables in addition to the control variables (Model 9 and Model 11). Results for these sub-samples are reported in Table 5.5. Interpretation of key variables is mentioned in the following paragraphs. These results are later discussed in detail in the discussion section.

5.5.1 RESULTS OF ADDITIONAL ANALYSIS

From Table 5.5, it can be observed that the effect of *Prior FDI* was significant and positive in all models. In particular, the effect of *Prior FDI* was stronger in Model 9 ($\beta = 0.980, p < 0.01$) when compared with Model 11 ($\beta = 0.601, p < 0.01$). This meant that with a one-unit increase in *Prior FDI*, firms with no prior presence were *2.60* times more likely to enter a foreign location, as $e^{0.980} = 2.60$; whereas firms with a prior presence were *1.88* times more likely to enter foreign locations, as $e^{0.601} = 1.88$. These results indicate that the effect of *Prior FDI* is stronger for firms that do not have a prior presence in the host country.

Among other variables of interest, it can be observed that the coefficient for *TMT int'l experience* remained non-significant in Model 9 ($\beta = -1.335, p > 0.1$) as well as in Model 11 ($\beta = -0.102, p > 0.1$). Moreover, it can also be observed that the moderating effect of *TMT int'l experience* is only positive and significant in Model 9 ($\beta = 0.269, p < 0.1$), but non-significant for firms that reported prior presence i.e. in Model 11 ($\beta = 0.031, p > 0.1$). This meant that with a one-unit increase in *TMT int'l experience*, the effect of *Prior FDI* on *Entry* (for firms with no prior presence) was likely to be strengthened by *1.30* times, as $e^{0.269} = 1.308$.

From Table 5.5, it can also be observed that the coefficient for *TMT int'l experience diversity* remains non-significant for both; Model 9 ($\beta = 0.151, p > 0.1$) and Model 11 ($\beta = 0.023, p > 0.1$). Moreover, Table 5.5 also indicates that the moderating effect of *TMT int'l experience diversity* on the relationship between *Prior FDI* and firm *Entry* remained non-significant in both, Model 9 ($\beta = -0.017, p > 0.1$) and in Model 11 ($\beta = -0.002, p > 0.1$).

Table 5.5 - Results of Sub-Sample (by Prior presence) Regression Analysis

	No Prior presence in host country at t-1		With Prior presence in host country at t-1	
	Model 8	**Model 9**	**Model 10**	**Model 11**
VARIABLES	**Entry**	**Entry**	**Entry**	**Entry**
Prior FDI	0.958***	0.980***	0.636***	0.601***
	(0.180)	(0.188)	(0.123)	(0.134)
Firm age	0.002	0.001	-0.001	-0.001
	(0.003)	(0.003)	(0.002)	(0.002)
Firm ROA	0.186	0.029	-1.090**	-1.055**
	(1.077)	(1.043)	(0.425)	(0.421)
R&D intensity	-0.011	-0.004	0.176	0.025
	(0.028)	(0.028)	(1.485)	(1.451)
Firm int'l experience	0.000	-0.001	0.000	0.000
	(0.002)	(0.003)	(0.001)	(0.001)
Int'l investment agreement	-0.422	-0.492*	-0.832***	-0.860***
	(0.275)	(0.279)	(0.185)	(0.186)
Rate of inflation	0.107***	0.103***	0.067***	0.066***
	(0.032)	(0.032)	(0.021)	(0.022)
GDP growth rate	0.155***	0.150***	0.098***	0.098***

	(0.043)	(0.043)	(0.026)	(0.026)
TMT size	0.027	0.018	0.026	0.008
	(0.030)	(0.035)	(0.020)	(0.022)
TMT average education	0.129*	0.078	0.008	-0.002
	(0.070)	(0.073)	(0.040)	(0.039)
TMT average tenure	0.058**	0.055**	0.051***	0.052***
	(0.023)	(0.023)	(0.014)	(0.014)
TMT average age	-0.017	-0.012	-0.001	-0.015
	(0.042)	(0.041)	(0.028)	(0.028)
Industry Dummies	Included	Included	Included	Included
Year Dummies	Included	Included	Included	Included
TMT int'l experience		-1.335		-0.102
		(0.816)		(0.849)
Prior FDI * TMT int'l experience		0.269*		0.031
		(0.142)		(0.130)
TMT int'l experience diversity		0.151		0.023
		(0.160)		(0.140)
Prior FDI * TMT int'l experience diversity		-0.017		-0.002
		(0.029)		(0.022)

TMT tenure diversity		4.464**		0.686
		(1.812)		(1.699)
Prior FDI * TMT tenure diversity		-0.753**		-0.135
		(0.308)		(0.263)
TMT education diversity		-6.874		0.800
		(4.330)		(4.176)
Prior FDI * TMT education diversity		1.121		0.039
		(0.737)		(0.648)
TMT functional diversity		5.047		-23.104***
		(7.281)		(7.869)
Prior FDI * TMT functional diversity		-1.098		3.699***
		(1.220)		(1.232)
Constant	-13.555***	-12.684***	-8.732***	-7.514***
	(2.707)	(2.757)	(1.826)	(1.863)
Wald Chi Square	160.42944	176.45526	246.65354	261.23595
Number of observations	7107	7107	5664	5664
Log Likelihood	-387.94633	-376.34568	-988.5102	-979.34864
AIC	819.89265	816.69137	2021.0204	2022.6973

Standard errors in parentheses

**** p<0.01, ** p<0.05, * p<0.1*

Table 5.5 also indicates that the coefficient for *TMT tenure diversity* was significant in Model 9 ($\beta = 4.464, p < 0.01$) but not in Model 11 ($\beta = 0.686, p > 0.1$). This meant that with a one-unit increase in *TMT tenure diversity*, firms with no prior presence were *86.83* times more likely to enter a foreign location. Table 5.5 also indicates that the moderating effect of *TMT tenure diversity* on the relationship between *Prior FDI* and firm *Entry* was only significant in Model 9 ($\beta = -0.753, p < 0.05$) and not in Model 11 ($\beta = -0.135, p > 0.1$). This meant that with a one-unit increase in *TMT tenure diversity*, the effect of *Prior FDI* on *Entry* (for firms with no prior presence) was likely to be weakened by *0.47* times, as $e^{-0.753} = 0.470$.

Comparing the two final models in Table 5.5, it can also be observed that *TMT education diversity* is non-significant in Model 9 ($\beta = -6.874, p > 0.1$) as well as in Model 11 ($\beta = 0.800, p > 0.1$). From Table 5.5 it can be seen that the moderating effect of *TMT education diversity* on the relationship between *Prior FDI* and firm *Entry* remained non-significant in both; Model 9 ($\beta = 1.121, p > 0.1$) and Model 11 ($\beta = 0.039, p > 0.1$).

Table 5.5 shows that the coefficient for *TMT functional diversity* is non-significant for firms that reported no prior presence i.e. in Model 9 ($\beta = 5.047, p > 0.1$), but negatively significant for firms that reported prior presence i.e. in Model 11 ($\beta = -23.104, p < 0.01$). This meant that with a one-unit increase in *TMT functional diversity*, the odds of entering foreign locations for firms with prior presence were reduced by $9.24\ e^{-11}$ times, as $e^{-23.104} = 9.24\ e^{-11}$ times. The Table 5.5 also shows that the moderating effect of *TMT functional diversity* on the relationship between *Prior FDI* and firm *Entry* was only significant in Model 11 ($\beta = 3.699, p < 0.01$) and not in Model 9 ($\beta = -1.098, p > 0.1$). This meant that with a one-unit increase in *TMT functional diversity*, the effect of *Prior FDI* on *Entry* (for firms with prior presence) was likely to be strengthened by 40.40 times, as $e^{3.699} = 40.406$.

5.6 SENSITIVITY AND ROBUSTNESS TESTS

Table 7.1 in the Appendix chapter reports additional results of these 2-stage treatment regression results in Models 12 – Model 16. In the first step, the probability of selection of an endogenous variable is calculated. In this stage, I considered *TMT international experience*, *TMT international experience diversity*, *TMT tenure diversity*, *TMT education diversity* and *TMT functional diversity* to be potentially endogenous in separate models. The select model uses probit regression analysis and requires the dependent variable to be dichotomous.

Therefore, to consider these variables as potentially endogenous, I created new dichotomous variables from the existing ones by considering higher (or lower) values than the mean. I used these new dichotomous variables as the dependent variable in the select model stage. I also used several instrumental variables that were used in the select model stage for main regression analysis. These variables included; *HQ City Population*, *HQ City Unemployment Rate*, *HQ City number of Airports*, *HQ City number of Heliports* and *Colleges and Universities in the HQ City*. Once again, the rationale for using these variables was that bigger cities with better connectivity and educational opportunities were likely to attract more experienced and diverse TMTs. At the same time, these variables are not expected to influence the foreign location choice, the dependent variable in the outcome equation (Bettis et al., 2014). Next, I calculated the *Inverse Mills Ratio*, which was then inserted in the outcome equation. Results in Table 7.1 show a non-significant *Inverse Mills Ratio,* which indicates that self-selection was not a problem. Moreover, the significant moderating relationships for *TMT functional diversity* and *TMT tenure diversity* further strengthened the support for the respective hypotheses.

In addition to the above, another issue that social science researchers frequently face in samples involving a binary outcome is the extent of zeros and ones in the dependent variable (King & Zeng, 2001b). Events with small probabilities of occurrence are called *rare-events*. FDI location choice researchers frequently observe their samples to be rare-events in nature (Castellani et al., 2013; Jiang et al., 2014; Zhou & Guillén, 2015). This rarity of events in FDI location choice (many zeros and few ones) could be problematic, as it can potentially create a bias in the results. In order to overcome any potential bias because of the rarity of events, I confirmed the robustness of my results using the rare event procedure as suggested by King and Zeng (2001a, 2001b). King and Zeng also provided a program called; *relogit* (rare events logistic regression) for STATA. This program is expected to correct for any bias in the estimates, that may occur for the rarity of events in the dependent variable. As illustrated in Table 7.2 (in the Appendix chapter), the results for rare-events logistic regression (in Model 17) confirm that the results from the main regression analysis are stable even when accounted for the rarity of events. Among the main variables of interest, the only difference was observed in the significance of interaction term between *Prior FDI* and *TMT tenure diversity*. This was understandable, given the low statistical significance in the main model as well.

I also checked the robustness of my results by using alternate measurements. In particular, I used an alternate measurement of *Prior FDI* by counting the total number of prior investments by home country firms since *t-3* and *t-5* years, separately. The regression results with these alternate proxies are reported in Model 19 and Model 20, in Table 7.2. It can be assessed that among the variables of interest, the interaction effect of *TMT functional diversity* remained consistently significant at $p < 0.1$. However, the interaction effect of *TMT tenure diversity,* which was significant at $p < 0.1$ in Model 7, did not turn out to be significant. This was expected, given the already low significance of the variable. Also, the direction of all the variables remained stable and did not change by using alternate proxies.

To check the sensitivity of other variables with alternate measurements, I conducted tests using the proportion-based measure of *TMT int'l experience* in Model 21 and scale-based measurement of *TMT average education* in Model 22. Definition and construction of these variables were already in explained in Chapter 4. In both cases, the new results remained consistent with the main regression results, thus adding to the robustness of results.

To check the sensitivity of representation in the sample, I also used sub-group analysis by excluding various countries from the data (Allmark, 2004). The results for this sub-group analysis are presented in Table 7.3 (in the Appendix chapter). For this, I conducted a logistic regression analysis after excluding various host countries and their combinations from the sample. In particular, I tested by excluding Japan in Model 23; Taiwan in Model 24; Vietnam in Model 25; and Japan and Taiwan in Model 26. The results of the sub-sample analysis and direction and significance of most of the variables remain stable and relatively consistent to the ones in the main regression analysis, thus adding to the robustness of the findings.

6 DISCUSSION AND CONCLUSIONS

6.1 INTRODUCTION

After demonstrating the results in the previous chapter, this chapter provides a discussion of the findings. It is followed by a section which concludes the thesis and highlights the contributions of the results. Later, a section describes the managerial implications of this research. Lastly, I acknowledge the various limitations of this research and recommend areas for possible future research.

6.2 DISCUSSION

6.2.1 H1: IMITATION IN FDI LOCATION CHOICE DECISION

The first hypothesis (H1) examined imitation in FDI location choice. H1 postulated that cognitive limitations force firms to follow the decisions of others. It was considered that home country referents provide a meaningful resource for learning, and firms use others' FDI decisions to lend legitimacy to their decisions. With these considerations in mind, H1 predicted a positive relationship between *Prior FDI* by home country firms and a firm's foreign *Entry*.

Findings of this research supported the first hypothesis. Firms were more likely to enter countries with FDI, where other home country firms had extensively invested. These findings supported the proposition that firms would invest in similar locations as selected by other home country referents. These findings also correspond with the results of various other research studies, which have postulated a positive relationship between prior FDI by other home country firms and the focal firm's location choice (Delios et al., 2008; Guillén, 2002; Jiang et al., 2014; Tan & Meyer, 2011). Support for this hypothesis also validates previous research investigations, which suggest that uncertainty in decision making induces mimetic reactions (Ang et al., 2015; Jiang et al., 2014; Ozmel, Reuer, & Wu, 2017). In terms of the institutional perspective, this finding is in line with DiMaggio and Powell's (1983) description of *mimetic isomorphism* as when *"...goals are ambiguous or when environment creates symbolic uncertainty, organisations will model themselves upon other organisations"* (p. 151).

The additional analysis (in section 5.5) also reveals that without any presence in the host country, the tendency to follow home-country firms increases. This insight also mirrors the findings of past researchers who have postulated that with host country experience, the tendency to follow others alters (Belderbos et al., 2011; Henisz & Delios, 2001). This finding reinforces our understanding towards the mimicking that happens in FDI decisions. In particular it suggests that in decisions to invest abroad, mimicking isomorphism is not an unconditional phenomenon, but is rather bounded by the uncertainty that firms face. The results indicate that the probability of investing in similar FDI locations increases when uncertainty is high, i.e. in this case, when firms do not have a prior presence in the host country.

6.2.2 H2: EFFECT OF TMT INTERNATIONAL EXPERIENCE

The second hypothesis (H2) examined the moderating effect of the TMT's international experience on the imitation of location choice decision. H2 was based on the premise that the international experience of managers increases the ability of the team to process information regarding foreign operations and hence should facilitate foreign entry. It was considered that the existing stocks of foreign experiences act as additional resources for learning, in addition to increasing the confidence of TMTs in making FDI decisions. Using these insights, it was hypothesised that an increase in cognitive abilities displaces the need to imitate home country firms. However, the findings from the main analysis (in section 5.4) did not support H2, as the moderating role of *TMT int'l experience* on the relationship between *Prior FDI* and foreign *Entry* was non-significant.

The inconclusive findings were surprising, given the support for top managers' international experience in the literature. Previous research investigations had linked managers' international experience with a firm's internationalisation activities (Herrmann & Datta, 2005; Peyrefitte et al., 2002; Sambharya, 1996). With this context, the cumulative depth of top team's international experience was expected to relieve firms of cognitive pressures. Although the results of this research were indecisive, they were not entirely isolated. A non-significant coefficient aligns with Li et al. (2015) who also could not find a statistically significant relationship between expatriate managers and FDI location choice.

The statistically non-significance of TMT's international experience could be put down to several reasons. For example, it is possible that the internationalisation knowledge stocks

exist within the firm, but are not utilised unless the complexity or uncertainty in the situation demands so (Ang et al., 2018). Since many of the MNEs can have an existing presence in the host locations, therefore it is also likely that top teams do not feel the need to activate learning from the international experiences of their fellow members. Likewise, while the international experience of managers will add specific details and insights in a discussion room, the aggregate effect of this in light of other factors like firm experience may be overshadowed. The statistically non-significant role of *TMT int'l experience* also explains why the interaction effect between *TMT int'l experience* and *prior FDI* in the full sample remains non-significant as well.

The additional analysis conducted (in section 5.5) also helps to reveal further insights about the moderating effect of *TMT int'l experience* on the relationship between *Prior FDI* and foreign *Entry*. Although the results showed that the interaction term for *Prior FDI* and *TMT int'l experience* strengthened for the firms that did not report a prior presence in the host country, the results need to be interpreted with caution (because of low statistical significance). This finding suggests that when firms face heightened uncertainty, teams with higher international experience decided to invest in the same location choice as others. The findings for the firms that reported a prior presence in the host country remained inconclusive.

The above findings indicate that while managers have learned a lot about the foreign countries in their foreign assignments, the decision to invest in new locations may not be ubiquitously applicable across all situations. In particular, top managers may have a different point of view when considering unique locations, especially under complex and uncertain conditions. Numerous reasons help explain this finding. Firstly, the findings validate that under complex or uncertain conditions, firms may decide to unlock the available stocks of internationalisation knowledge (Ang et al., 2018). As a result, the uncertainty of not being present in the host country activates the learnings from the international experience of top managers. Secondly, the findings indicate a risk-averse nature of internationally experienced top managers, which is also specific to the context. It is possible that past accounts of difficulties and adversities in foreign countries can make managers sensitive to the unseen institutional challenges that firms may face in target locations. These results also correspond with research by Clark et al. (2018) who have shown that with increasing international experience, the probability of country selection first increases and then decreases. Hence, these

managers (with high stocks of international experience) may not prefer to invest in new locations, especially in highly uncertain or ambiguous situations. Moreover, this risk-aversion attribute is understandable, especially when firms wish to invest in a high-risk and high-commitment project, like manufacturing-related greenfield FDI in countries where they have no prior presence. In addition to this, it is also possible that TMT members are in senior positions, and any poor judgement at this stage can have severe implications for their careers. Hence, to reduce their own risk and add legitimacy to their decision, they bank on the signals from others. Therefore, despite having a global outlook, internationally experienced teams could be more cautious and suspicious of foreign countries, especially when situations are highly ambiguous. As a result, when uncertainty is high, such experienced teams are also likely to rely on other home country firms in FDI location choice decisions.

These findings contribute to both; the institutional theory and the upper echelons theory. Firstly, these findings identify TMT's international experience as a new boundary condition to cognitive institutions. Secondly, the findings also identify that effect of TMT's international experience in FDI location choice is conditional upon the context of decision-making. Hence, if the conditions of the decision are highly complex and uncertain, teams with high international experience may bank on the decisions of others for gaining legitimacy in their decisions.

6.2.3 H3: Effect of TMT International Experience Diversity

The third hypothesis (H3) examined the moderating effect of the diversity of TMT's international experience on the imitation of location choice decision. H3 was based on the premise that the diversity of international experiences increases the ability of the team to process new information and facilitate foreign entry. Previous researches had shown that the diversity of foreign experiences adds to the cognition of the team (Athanassiou & Roth, 2006; Sambharya, 1996). Hypothesis H3 mirrored the insights from the existing research studies which suggested that breadth/variety of experiences in different institutional settings acts as an additional resource for learning, in addition to increasing the confidence of TMTs in making FDI decisions. Using these insights, it was theorised that an increase in variety of international experiences corresponds with an increase of cognitive abilities, which displaces the need to imitate home country firms. However, results in the regression analysis were insufficient for concluding the same. In this context, these results do not confirm the results by Athanassiou

and Roth (2006) and Sambharya (1996) who have claimed that diversity of international experiences can lead to better chances for internationalisation.

The results indicate that the coefficient for the interaction term between *Prior FDI* and *TMT int'l experience diversity* was negative as predicted, but the overall effect remained non-significant. The results in the main analysis (section 5.4) and in the additional analysis (section 5.5) reached the same findings. The non-significant result of H3 could be attributed to a number of reasons. Firstly, it is possible that diversity of international experiences adds specific cognitive resources to the team, but various other team-level characteristics like functional knowledge would overshadow the effect of diversity of top managers' international experiences (Harrison et al., 2002; Pelled, 1996). Future research can refine if the diversity of international experiences is influenced by other forms of cognitive resources within a team. Secondly, much like TMT's international experience, it is possible that the cognitive contribution from diverse international experiences is not activated until the situation demands so. Other contexts where the situation is complex can shed more light if the stocks of diverse international experiences are activated or not. Lastly, it is also possible that team members may prefer to use other forms of learning (like host country experience) over their personal experiences. Future research can identify if TMTs have a preference for a type of experience in a particular context.

6.2.4 H4: Effect of TMT Tenure Diversity

The fourth hypothesis (H4) examined the moderating effect of the diversity of TMT's tenure on the imitation of location choice decision. H4 was based on the premise that diversity of tenures would enhance the ability of the team to come up with unique solutions, gain cognitive horsepower, and facilitate foreign entry. Using these insights, it was hypothesised that with an increase in cognitive abilities, the need to imitate home country firms shifts.

Findings from section 5.4 show that as suggested in H4, *TMT tenure diversity* weakens the effect of *Prior FDI* on firm *Entry*. Although this finding should be interpreted with caution, because of low statistical significance, it supports the role of *TMT tenure diversity* in generating cognitive resources for the team. This insight also augments the literature to support the role of tenure diversity in the internationalisation of the firm (Barkema & Shvyrkov, 2007; Carpenter & Fredrickson, 2001; Tihanyi et al., 2000). The findings not only reinforce the

positive cognitive contribution of tenure diversity but also extend its application to institutional theory.

The additional analysis (in section 5.5) reveals some additional insights regarding the moderating role of *TMT tenure diversity*. It can be observed that the effect of *TMT tenure diversity* is only significant in the case of firms, that do not report a prior presence in the host country and not for firms that reported a presence in the host country. This finding resonates with Keck (1997) and Ang et al. (2018), who suggested that the effect of specific cognitive attributes may only activate when conditions are uncertain and complex. Results from Model 9 (in Table 5.5) exhibit the same and suggest that under highly uncertain conditions (i.e. when firms have no prior presence in the host country), *TMT tenure diversity* helps to weaken the effect of *Prior FDI* by other firms on the firm's foreign *Entry*.

At the theoretical level, these findings contribute to both; the institutional theory and the upper echelons theory. Firstly, these findings identify TMT's tenure diversity as a new boundary condition to the cognitive domain of institutions. Secondly, the findings also identify that effect of TMT's tenure diversity in FDI location choice is affected by the context of decision-making. Therefore, the effect of TMT tenure diversity in a location choice decision may be profound, if the conditions of the decision are highly uncertain or ambiguous. At the level of FDI location choice as a dependent variable, these findings validate the importance of cognitive contributions that occur because of managers with different tenures (Barkema & Shvyrkov, 2007). Moreover, these findings also show that the cognitive muscle that diverse members bring helps to weaken the imitative reactions in FDI location choice.

6.2.5 H5: Effect of TMT Education Diversity

The fifth hypothesis (H5) examined the moderating effect of the diversity of TMT's educational backgrounds on the imitation of location choice decision. H5 was based on the idea that a variety of educational backgrounds enhances the ability of the team to come up with unique solutions, gain cognitive horsepower, and facilitate foreign entry. Using these insights, it was hypothesised that an increase in cognitive abilities weakens the need to imitate home country firms.

Results from the full model (Model 7 in section 5.4.4) indicate that the moderating effect of *TMT education diversity* remained non-significant. The results for *TMT education diversity* remain consistent in the additional analysis as well. These findings were unexpected, as many researchers had earlier shown evidence for the positive outcome of educational diversity (Carpenter & Fredrickson, 2001; Nadolska & Barkema, 2014; Wiersema & Bantel, 1992). On the contrary, the lack of support for the diversity of educational backgrounds is not uncommon either. Past researchers like Barkema and Shvyrkov (2007), Tihanyi et al. (2000), Lee and Park (2006) and Nielsen and Nielsen (2013) have all failed to find significant positive results for the diversity of educational backgrounds.

The lack of support for H5 is generally attributed to the *memory effect* (Barkema & Shvyrkov, 2007; Cui et al., 2013). *Memory effect* refers to the fact that educational experiences may be remote in managers' memory, as many top-managers obtain their education even before getting employed. Upper echelon managers are mature in their ages (mean *TMT average age* being *52.11* years) with long tenures (mean *TMT average tenure* being *11.89* years). Therefore, it is likely that these top managers had completed their highest degree a long time ago. Hence, it is plausible to imagine that after an extended period, the cognitive imprint of educational degrees gets overshadowed by extensive experiences in the industry.

6.2.6 H6: Effect of TMT Functional Diversity

Results from the full model (Model 7 in Table 5.4) indicate that the coefficient of *TMT functional diversity* was negative and significant, showing that it negatively influences firm entry. This finding that the diversity of functional backgrounds in a team are a source of negative cognitive dividends is a new contribution in the context of FDI location choice research. It also indicates that although team members can think from multiple perspectives, their cumulative abilities suffer because of the differences in their functional backgrounds. Their division points to the fact that with years of experience, managers become deep-rooted in their functional backgrounds. Their inability to identify other group members' perspectives inhibits the mental resources available to the team. As a result, functional diversity in the TMT negatively impacts the foreign entry of a firm.

The sixth hypothesis (H6) examined the moderating effect of the diversity of TMT's functional backgrounds on the imitation of location choice decision. H6 was based on the

premise that although a variety of functional backgrounds and knowledge bases generate the ability to assess host country threats and opportunities from multiple (functional) perspectives, the surface-level nature of functional backgrounds make it a contentious point. As managers indulge in social categorisation of their fellow members, the social cohesion in the group is compromised, and the cognitive output of the team deteriorates. Using these insights, it was theorised that with the decrease in team unity and cognitive abilities, heterogeneity of functional backgrounds strengthens the need to imitate home country firms. Therefore, *TMT functional diversity* was expected to strengthen the relationship between *prior FDI* and firm *Entry*.

The coefficient for the interaction term between *TMT functional diversity* and *Prior FDI* was positive and significant. The support for H6 indicates that an increase in functional diversity further strengthens the isomorphic behaviour of firms in location choice. These results indicate that surface-level demographic characteristics can seriously jeopardise the cumulative cognition of the group. As the social categorisation of the team breaks down the communication, it also hampers the ability of the team to think as a group collectively. Consequently, any fragments and divisions within the TMT can have catastrophic effects on the ability of the team to come up with unique solutions. As a result, not only were the firms less likely to come up with solutions for entering foreign countries, but the requirement for legitimacy also increased. Therefore, functionally diverse teams were also more reliant on home country firms' for FDI decisions. This sort of dependence may also provide a support mechanism to a dwindling team, which already suffers from a lack of cohesion. These findings demonstrate that managers should explicitly be made aware of their tendency to categorise their fellow members. The attempt to categorise members not only hampers complex decision making but also raises legitimacy concerns for the team.

The findings from this research can be well-positioned in the previous literature. The results corroborate with Barkema and Shvyrkov (2007) who suggested that when firms suffer from disintegration, then it may hamper their ability to select new locations for investments. Moreover, there is evidence from upper echelon researchers who have found negative cognitive returns because of diverse functional backgrounds. Few prominent examples in this context include; Carpenter and Fredrickson (2001) who found a negative relationship between the diversity of functional backgrounds and expansiveness of global strategic posture. Likewise,

Wei et al. (2005) hypothesised and found a negative relationship between functional diversity and performance of the firm. These findings suggest that the surface-level nature of functional diversity cannot be avoided, as it has the potential to generate affective conflict among members (Pelled, 1996). The findings also resonate with Ancona and Caldwell (1992), who showed that despite the increase in ability to make complex decisions, diversity could impede implementation and compromise the teamwork.

While reconciling past literature, it becomes apparent that the adverse effects of functional diversity on firm internationalisation may not always remain negative and significant (Peyrefitte et al., 2002; Tihanyi et al., 2000) – as it is often termed as a *double-edged sword*. In this context, I refer to Carpenter (2002), who suggested that the effects of functional diversity are contingent upon the complexity and uncertainty of the decision. To further refine the context in decision making, the additional analysis conducted in section 5.5 reveals some interesting insights about the interaction of *TMT functional diversity* and *Prior FDI*, under varying conditions of uncertainty.

From the results of Model 9 and Model 11, it becomes apparent that the coefficient of *TMT functional diversity* interaction is only significant in the case of firms which reported a prior presence in the host country. It is interesting to note that the moderating effects of *TMT functional diversity* only became apparent when firms were facing considerably less uncertainty, i.e. situations in which they were considering investing in countries already known to them. This finding extends the argument by Carpenter (2002), who suggested that the effect of diversity should be examined in the context in which decisions are made. Moreover, it raises our understanding of the investment environment, in which *TMT functional diversity* becomes consequential. More details on why *TMT functional diversity* is significant when uncertainty is low are presented in the next section.

6.2.7 Additional Analysis; Visibility of Attributes and Uncertainty

With a few exceptions, a striking feature of the upper echelon research has been to consider the various upper echelon variables, without taking into account the influence of the external environment in which decisions are made (Carpenter, 2002; Keck, 1997). Carpenter suggested that the effects of TMT diversity on firm performance are contingent upon the level of complexity in decision making. Results in section 5.5 align with this statement and suggest that

specific TMT parameters are only visible when uncertainty is high. Keeping this in view, I extend the prior researchers' opinion and suggest that the nature of attributes also has a role to play under conditions of uncertain decision making.

There is evidence to suggest that teams alter their behaviour in different situations. Depending upon the nature of the task at hand (normal operations vs high-tempo or emergency situations), teams fluctuate in the extent of authority, communication and responsibility they exercise (Serfaty, Entin, & Volpe, 1993). Literature also supports that under pressure, teams are more receptive to information from other group members (Driskell & Salas, 1991). Likewise, certain types of knowledge stocks are activated only when firms face uncertain or complex situations (Ang et al., 2018). The results from section 5.5 also extend this stream of research. In its essence, results indicate that when teams face heightened uncertainty, they are more receptive to information that is being shared by their members. Faced with the liability of not knowing about foreign markets, these teams listen to their members more carefully, and members have more opportunities to share their knowledge and experience. While sharing their life-long learnings, members communicate their deeply entrenched thought processes and opinions. Consequently, only deep-level variables become effective when uncertainty is high, and surface-level variables remain ineffective. On the contrary, when uncertainty in the decision is less, i.e. when firms have a prior presence in the host country, surface-level attributes take prominence while deep-level variables remain hidden and unexplored. The significant moderating effects of *TMT int'l experience*, and *TMT tenure diversity* (when firms do not have a prior presence); and *TMT functional diversity* (when firms have a prior presence) point towards the same trend. Further discussion of the mechanism of this trend follows.

When faced with highly uncertain situations, the complexity of the situation forces a re-categorisation of members, which now allows previously out-group members to be looked at as in-group. This mechanism reduces the negative effect of social categorisation (Phillips et al., 2006) and TMT members ignore the surface level differences amongst themselves. Moreover, as members spend more time together in discussions, their surface-level differences are suppressed, and deep-level attributes are accentuated (Harrison et al., 2002). As a result, the decision making is not impacted by issues like race, gender, age or functional background; as the seriousness of the situation demands cognition beyond surface level attributes. What matters at a time of highly ambiguous and crisis-like situations are the value-based differences

and knowledge without getting into the debate of who is apparently different. On the contrary, when teams face considerably less uncertain situations (and in the context of this research, when they have prior knowledge of the potential host location), the surface level attributes overcome deep-level characteristics. The luxury of knowing about the host market allows members to debate and engage in a conflict-like situation, which is emotionally charged rather than being substantive. For the same reason, functional backgrounds become more profound when firms have a prior presence in the host country.

This insight from the discussion makes a unique contribution to the upper echelon research. Not only does it refine Carpenter's (2002) conclusions about uncertainty, but it also extends the visibility of attributes as an essential mechanism in determining the outcome of diversity (Mohammed & Angell, 2004; Pelled, 1996). Richard et al. (2019) had similar findings showing that environmental dynamism influences task and non-task related attributes differently. This finding also has the potential to explain why the outcome of diversity-related attributes remains hidden in many research investigations.

6.3 CONCLUSION AND CONTRIBUTIONS

FDI has been an area of prime interest in the field of IB. When firms invest outside their home nations, researchers are interested in questions like "How?", "When?" and "Where?". This research addressed the "Where?" question – and investigated the location choice of firms. The literature review suggests that when firms wish to invest outside their home countries, the uncertainty about target locations plays a significant role in their decisions. Challenges like institutional voids, political turmoil, and rapid changes in policy, add to the difficulty in deciding a location for FDI. This lack of understanding about target locations triggers a mimicking reaction among firms. Investment decisions of others provide legitimacy to a firm's decisions, especially when the relative costs and benefits of going to target countries are not clear. This research builds on similar insights from institutional theory, which among other things suggests that firms tend to imitate, as they lack the required cognitive capabilities to assess the environment in target countries.

Building on to the above argument, this research suggests that although imitative behaviours exist, all firms may not face similar levels of cognitive deficiencies. In this context, the literature review identifies that past researchers have ignored the combined cognitive effect

of a firm's top managers, that may influence the extent of institutional pressures, as faced by the firm. These managers, in certain instances, can play the role of a change agent and disrupt the usual course of strategies (Battilana et al., 2009). The disparity in cognitive resources occurs when members of a firm's TMT are highly experienced or diverse in their characteristics (Carpenter & Fredrickson, 2001; Hambrick & Mason, 1984). This research realises that differences in cognition help to overcome institutional challenges and act as an impetus to shift the extent of imitation. Therefore, the prime objective of this research was to identify the upper echelons' attributes as a boundary condition of the mimicking behaviour that surrounds FDI related decisions.

To hypothesise the effect of top managers, I used insights from upper echelon theory, which considers the demographic attributes of TMTs to be a surrogate of cognitive and knowledge resources. In particular, this research assessed the role of various diversity-related attributes, including; *TMT int'l experience*, *TMT int'l experience diversity*, *TMT tenure diversity*, *TMT education diversity* and *TMT functional diversity* on the relationship between *Prior FDI* by other home country firms and FDI location choice (foreign *Entry*) by US MNEs. The research also recognised that while the presence of diverse and experienced members should translate to additional cognitive power, this is not always the case. Using the context of visibility of attributes (Pelled, 1996; Pelled et al., 1999), this thesis also points to an idiosyncratic effect of diversity-related attributes on the imitation of FDI decisions. In particular, the proposed hypotheses build on the argument that deep-level attributes (*TMT international experience* and *TMT tenure diversity*) add to the cognition of the team, while surface-level elements (like *TMT functional diversity*) impact negatively to the group processes.

In addition to realising TMT attributes as a boundary condition to the mimicking behaviour, this research also points to the environmental setting in which decisions are made (Carpenter, 2002; Qian et al., 2013). Within the context of this research, specific attributes highlight only when environmental uncertainty is high and vice versa. To test the impact of TMT characteristics under conditions of heightened uncertainty, I split the sample and test the hypotheses for two types of firms, i.e. when firms have a prior presence in the potential host country and when firms have no prior presence in the potential host country.

Using a database on greenfield FDI, this research investigates the FDI location choices made by US-based MNEs to top destinations in the Asia-Pacific region, from the year 2009 to 2014. A panel-data consisting of 202 firms investing in potentially 11 countries over 6 years was analysed using random effects logistic regression. The results derived from the analysis showed support for Hypothesis H1 (*Prior FDI*), Hypothesis H4 (Moderating effect of *TMT tenure diversity*) and Hypothesis H6 (Moderating effect of *TMT functional diversity*). While examining the role of TMTs, this research contributed to the literature in numerous ways. In the following section, these contributions are categorised as two major and two minor contributions.

The two major contributions of this research are as follows:

1. Primarily, this research contributes by bringing in the role of *TMT functional diversity* to the FDI location choice literature. The findings suggest that *TMT functional diversity* impacts the location choice decision in two unique ways. Firstly, *TMT functional diversity* strengthens the impact of prior home-country FDIs on a firm's location choice. This finding suggests that when functional diversity is high in a team, not only do social biases step-in and teams find it hard to reach to a solution, but such teams are also more likely to rely on the FDI decisions of others. In this case, imitation provides a meaningful substitute for finding a solution and achieving legitimacy, from a loosely bonded team. Therefore, higher functional diversity accentuates imitative reactions and the effect of prior home-country FDI on location choice is strengthened. Secondly, the findings not only contribute a new boundary condition, i.e. *TMT functional diversity* to the mimicking isomorphism literature but also identify *TMT functional diversity* as a variable that negatively impacts the foreign *Entry* of a firm.

2. In addition, this research also highlighted the role of *TMT tenure diversity* and suggests that it weakens the effect of imitative reactions in FDI location choice. *TMT tenure diversity* was found to be a key source of cognitive resources, especially when TMTs were faced with higher uncertainty. The increase in cognition because of having members with a wide variety of organisational tenures was a crucial factor in displacing the need to follow prior entrants in foreign location choice. This

finding adds *TMT tenure diversity* as a unique resource that helps to overcome the legitimacy challenges and weaken the isomorphic tendencies. This contribution adds further to our understanding of *TMT tenure diversity* in location decisions (Barkema & Shvyrkov, 2007).

The two minor contributions of this research are as follows:

1. The findings from this research indicated that when firms face significantly high amounts of uncertainty, their internationally experienced managers may become risk averse. Internationally experienced managers are better able to identify foreign opportunities and threats (Sambharya, 1996), but when faced with high uncertainty their same ability may restrict them from making bold and novel FDI location choice decisions. These findings indicate that having seen and experienced the challenges in foreign countries, internationally experienced managers tend to opt for a safer decision, i.e. to follow others in order to gain legitimacy in their decisions. Consequently, when firms did not have a prior presence in the host country, internationally experienced managers were likely to rely more on prior FDI decisions of home country firms. These unique findings add new insights to the literature that highlights the role of TMT international experience (Clark et al., 2018; Maitland & Sammartino, 2015b; Sambharya, 1996; Tihanyi et al., 2000).

2. This research also showed that the effects of diversity-related attributes on imitation are conditional upon the extent of environmental uncertainty. This finding adds uniquely to the upper echelon literature by bringing in the concept of *visibility of attributes* in the conversation surrounding the effect of the environmental context in which TMT members make decisions (Chen & Liu, 2018; Qian et al., 2013; Richard et al., 2019). The findings of the research show that team members pay attention to deep-level attributes when faced with adversity (or uncertain situations) and get caught up in surface-level attributes when times are good (or when uncertainty was low). In particular, it showed that deep-level variables including; *TMT int'l experience* and *TMT tenure diversity* were prominent in moderating isomorphic tendencies, especially when firms did not have a prior presence in the host country. On the other end, the effect of a surface-level variable like *TMT*

functional diversity was pronounced when firms had a prior presence in the host country.

The contributions mentioned above highlight the role of upper echelons in foreign location choice. The findings from this research suggest that top managers' cognitive resources have a significant role in overcoming institutional challenges. The following section highlights some of the practical and managerial implications of the findings mentioned above.

6.4 MANAGERIAL IMPLICATIONS

TMTs are an integral part of the corporate decision-making process. The way managers think and make decisions has a significant impact on organisational performance and success. Paying heed to the composition of TMTs can significantly enhance the decision-making abilities of the firm. The recruitment and selection of top managers is a critical step which can set the right tone for future decisions. Findings from this research provide practical and meaningful insights for CEOs, board members and other top managers who are responsible for selecting members of the TMTs. Likewise, the insights from this research are also valuable for TMTs themselves, as they can be aware of potential advantages and pitfalls of their diverse characteristics.

This research, in particular, has highlighted the role of the top team's international experience and diversity in the uncertain times of selecting a foreign location. When managers suffer from a deficit of cognitive capabilities and follow the FDI decisions of other investors, an alternative could be to rely on the insights of their fellow team members. To reduce the reliance on other firms, the length and diversity of international experiences and educational backgrounds did not prove to be very useful; however, the diversity of members' tenure was found to be effective. On the contrary, the diversity of functional backgrounds was found to further exacerbate the effect of other home-based investors. Therefore, boards and CEOs who select members of the top teams should realise the respective strengths and shortcomings of tenure and functional-based diversity respectively. If the selectors intend to attain competitive advantages based on unique locations, then they should emphasise on bringing members from outside with fresh perspectives.

Board members and CEOs, who put together the TMTs should also be aware of the tenures of members. In this context, a mix of long and short organisational tenures among

members should be highly emphasised. Those with more extended service to the organisation have proven to be useful in foreign entry decisions. Their knowledge and learning about the way firm operates, need to be treasured. Likewise, an optimal mix of both long and short tenures is also found to be effective in foreign entries and in overcoming institutional pressures. This also highlights the role of newly inducted employees who can contribute by building out of the box strategies while working with experienced staff members. With these insights, MNEs should consider appointing both; seasoned staff members (from inside the firm) and fresh blood (from outside the firm) for their TMTs. From the findings of this study, it can be suggested that having a group of top managers, who have joined the organisation at different times would add significant value to the cognitive resources of the team and as a result, these managers are likely to rely less on others for FDI decisions. Hence, firms who are aiming to achieve competitive advantage by investing in unique locations should value the diversity of tenures in their teams.

Boards and CEOs should also be careful when assigning FDI related decisions to TMTs, comprising of top managers with diverse functional backgrounds. Functionally diverse managers have spent extensive lengths of stay in their respective functions and are possibly too ingrained in the view of their departmental backgrounds. Although a diverse team is expected to stimulate creative thinking, a variety of functional backgrounds can prove to be a divisive factor in the unity of teams. Managers should also be made aware that their inability to comprehend the point of view of their colleagues can influence the strategic orientation of firms. Not only can this behaviour impact the cognitive performance of the team, but it can also jeopardise the firm's efforts to internationalise. Although this research did not test the performance of the firm, it is possible that in certain instances, a (functionally) divided team would inhibit the firm's ability to make the best decisions. With these tendencies in mind, MNEs should organise regular training for their TMTs, which would raise their self-awareness to overcome any potential social biases and encourage team building.

In addition to above, CEOs and board members should realise that diversity-related strengths and weaknesses of TMT members are conditional upon level of uncertainty in the decision. If we interpret the findings, it is evident that under highly uncertain situations, attributes that remain hidden from other members are considered more useful. By remaining obscure from the public eye, certain managerial characteristics like of the organisation can be

used effectively to come up with unique strategies without creating a rift among the team members. Such characteristics can hence be used as a criterion to select members for complex and innovative decision making.

In addition to the tenure and functional backgrounds, boards and CEOs should also pay heed to the depth of international experience within the teams, when they are making internationalisation decisions for highly uncertain situations. It is possible that managers with depth of international experience, have become risk-averse with time and would tend to follow the path being followed by others. Although high stocks of international experience are added resource among top managers that can be used for better handling of internationalisation decisions, it can be a liability when firms need to select unique location choices for achieving competitive advantages.

6.5 LIMITATIONS AND FUTURE AREAS OF RESEARCH

The primary purpose of this research was to investigate the role of TMT's experience and diversity while overcoming institutional pressures in foreign location choice. The study provided insights on numerous fronts, including how some aspects of diversity could be valuable while others could be divisive. The findings have also helped to advance the theory by identifying new boundary conditions for the cognitive institutional pillar. However, the findings are subject to certain limitations, which are below.

One of the limitations of this research is the lack of categorisation in individual members' experiences. The current dataset does not distinguish between *search depth* vs *search scope* of knowledge (Katila & Ahuja, 2002). An example of search depth vs search scope is the *TMT international experience diversity* construct. I have considered the unique number of countries where top managers have worked or were educated. However, the extent of TMT's international experiences may not be uniform in all countries. Members' knowledge about certain countries where they have worked extensively is relatively better than knowledge about the countries where they have not had extensive experiences. The findings point to new potential directions in upper echelons research, where researchers can investigate the differences in lengths of international tenures in various countries, where managers have had experiences (Maitland & Sammartino, 2015b) and investigate their effect on FDI location choice decision. In addition to above, while the measurement of diversity of international

experiences can be criticised for being associated with the size of the team, it cannot be truly measured by other tools like Blau's index or Coefficient of variation. Hence, this remains a limitation of the study.

Managers in different functional categories (output functions, throughput functions and peripheral functions) act differently in terms of their strategic preferences (Boeker, 1997a; Herrmann & Datta, 2005). In this study, the measurement of diversity in functional backgrounds is limited to a holistic construct. Because of the limitation of my dataset, I did not categorise functional tracks into the categories above. Future researchers could look into this aspect of functional categorisation and refine how managers from different functions respond differently to institutional forces.

Another possible limitation of the TMT research is the opinion that the entire TMT may not be associated with making strategic decisions of the firm. In this regard, Roberto (2003) notes that it is the *dynamic periphery* (a group of senior managers) around the CEO who is consulted for individual tasks. In this way, a CEO consults a smaller team of individuals for the decision under consideration. The composition of this team could be different from this research's definition of TMT. This view provides an opportunity to check the applicability of my findings with the concept of the *dynamic periphery*, instead of the entire TMT. Given the restrictions of secondary data resources, a primary data collection technique like surveys or interviews, that identify this *dynamic periphery* could potentially overcome this limitation. Another limitation of the TMT research stems from exclusion of directors. Traditionally, the TMT related research considers that directors perform a governance function only and actual decisions are opted by the top management. However, in reality these boundaries may not be as clearly defined. Hence exclusion of director-level data can be considered a limitation of this research.

Another limitation of this research is the use of demographic attributes to proxy for cognitive resources available to the team. Future research can validate the constructs and the underlying theoretical model by employing survey-based techniques.

Another limitation of this research is the way uncertainty was incorporated into the additional analysis. It is possible that in case of certain countries like Japan and Korea, the uncertainty associated with FDI is less, even when firms do not have prior presence in those

countries. This is because the institutions in Japan and Korea might be more stable and mature when compared with Thailand or Philippines. In this context, institutional distance remains a widely used construct to differentiate countries or incorporate uncertainty in location decisions (Ghemawat, 2001; Godinez & Liu, 2015; Xu & Shenkar, 2002). In line with this approach, I collected and calculated the data on Regulatory Distance and Cultural Distance variables, however, I could not use these variables because of statistical limitations.

The context of home country referents also has its limitations. It is possible that a country lacks a sizable number of MNEs and hence the home country referent category exerts a minimal effect. For example, a company from a small island nation (like Fiji) may not find enough home country referents to follow. Future researchers can assess if in cases like this, other forms of referent groups like firms from neighbouring countries also influence a firm's decision making.

In addition to the home country referents, firms also follow other firms within the same industry (Bastos & Greve, 2003; Jiang et al., 2014). However, such data that look at affiliates in each country within each industry was not available from BEA. This limitation prohibits from examining the imitation within each industry group. Future research can assess if industry-wide mimicking also gets impacted by TMT-related variables.

Another limitation of this research is the inability to exclude the non-sample induced endogeneity. To exclude non-sample induced endogeneity, researchers use 2SLS regression (Certo, Busenbark, Woo, & Semadeni, 2016). The standard command within STATA to run 2SLS is *ivregress*, which is not optimised to accommodate the Random effects logistics regression. Lack of a proper tool within STATA limits my ability to test for non-sample induced endogeneity.

The findings of this research can be verified in other contexts, as well. Future researchers can reproduce the impact of TMT related variables on other forms of institutions like regulatory or normative institutions (Kedia & Bigli, 2014). Likewise, other TMT-related constructs like *TMT nationality* (Nielsen & Nielsen, 2013) and *faultlines* (Barkema & Shvyrkov, 2007) should be investigated within the context of cognitive institutions. Moreover, the role of TMTs can also be examined in other imitative contexts like following others in policy implementations or product developments. Similarly, future research can investigate

how TMTs from different countries help in overcoming institutional pressures. In this context, the managers from emerging countries could potentially have different experiences of dealing with foreign institutional challenges than the managers from the developed world. Likewise, other contexts of investigations like entry mode or knowledge transfer within subsidiaries could further verify the interaction of TMT attributes and institutional challenges. Future research in the areas mentioned above could significantly deepen our understanding of TMTs and institutions.

7 APPENDIX

Table 7.1 - Additional 2-Stage Regression Analysis

Stage 2 Outcome Models

VARIABLES	Model 12 Entry	Model 13 Entry	Model 14 Entry	Model 15 Entry	Model 16 Entry
Prior FDI	0.807***	0.807***	0.807***	0.807***	0.807***
	(0.106)	(0.106)	(0.106)	(0.106)	(0.106)
Firm age	-0.001	-0.001	-0.001	-0.001	-0.001
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Firm ROA	-0.817**	-0.816**	-0.820**	-0.813**	-0.815**
	(0.356)	(0.356)	(0.356)	(0.356)	(0.356)
R&D intensity	-0.012	-0.012	-0.012	-0.012	-0.012
	(0.027)	(0.027)	(0.027)	(0.027)	(0.027)
Firm int'l experience	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Prior presence	0.696***	0.695***	0.693***	0.694***	0.695***
	(0.151)	(0.150)	(0.151)	(0.150)	(0.151)
Int'l investment agreement	-0.682***	-0.682***	-0.682***	-0.682***	-0.682***

	(0.152)	(0.152)	(0.152)	(0.152)	(0.152)
Rate of inflation	0.085***	0.085***	0.085***	0.085***	0.085***
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
GDP growth rate	0.111***	0.111***	0.111***	0.111***	0.111***
	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)
TMT size	0.017	0.017	0.019	0.018	0.018
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
TMT average education	0.017	0.018	0.018	0.019	0.018
	(0.033)	(0.033)	(0.032)	(0.032)	(0.032)
TMT average tenure	0.052***	0.052***	0.051***	0.051***	0.051***
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
TMT average age	-0.015	-0.015	-0.015	-0.016	-0.016
	(0.022)	(0.022)	(0.022)	(0.022)	(0.023)
Industry Dummies	Included	Included	Included	Included	Included
Year Dummies	Included	Included	Included	Included	Included
TMT int'l experience	-0.176	-0.175	-0.166	-0.169	-0.173
	(0.568)	(0.568)	(0.569)	(0.568)	(0.568)
Prior FDI * TMT int'l experience	0.052	0.052	0.051	0.051	0.052
	(0.090)	(0.090)	(0.090)	(0.090)	(0.090)
TMT int'l experience diversity	0.133	0.133	0.131	0.133	0.133

	(0.094)	(0.094)	(0.094)	(0.094)	(0.094)
Prior FDI * TMT int'l experience diversity	-0.019	-0.019	-0.019	-0.019	-0.019
	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
TMT tenure diversity	1.756	1.758	1.726	1.771	1.768
	(1.139)	(1.140)	(1.144)	(1.141)	(1.142)
Prior FDI * TMT tenure diversity	-0.302*	-0.302*	-0.301*	-0.304*	-0.303*
	(0.181)	(0.181)	(0.181)	(0.181)	(0.181)
TMT education diversity	-3.328	-3.319	-3.311	-3.288	-3.307
	(2.827)	(2.827)	(2.827)	(2.828)	(2.826)
Prior FDI * TMT education diversity	0.635	0.635	0.636	0.633	0.634
	(0.451)	(0.451)	(0.451)	(0.451)	(0.451)
TMT functional diversity	-7.902**	-7.928**	-7.926**	-8.015**	-7.971**
	(3.929)	(3.930)	(3.911)	(3.929)	(3.925)
Prior FDI * TMT functional diversity	1.297**	1.298**	1.284**	1.305**	1.304**
	(0.643)	(0.643)	(0.642)	(0.643)	(0.644)
Inverse Mills Ratio	-0.085	-0.047	-0.172	0.128	0.049
	(0.382)	(0.389)	(0.372)	(0.554)	(0.547)
Constant	-10.029***	-10.075***	-10.038***	-10.185***	-10.129***
	(1.524)	(1.520)	(1.474)	(1.485)	(1.465)

Standard errors in parentheses

**** p<0.01, ** p<0.05, * p<0.1*

Stage 1 Selection Models

VARIABLES	TMT int'l experience	TMT int'l experience diversity	TMT tenure diversity	TMT Highest Education Diversity	TMT functional diversity
HQ City Population	0.044***	0.052***	0.154***	0.015	0.087***
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
HQ City Unemployment Rate	0.030***	0.035***	-0.054***	-0.004	-0.037***
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
HQ City (No. of Airports)	-0.066***	-0.028***	0.076***	-0.065***	0.015*
	(0.009)	(0.009)	(0.008)	(0.008)	(0.008)
HQ City (No. of Heliports)	-0.008***	-0.015***	-0.013***	-0.011***	-0.018***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
No. of Colleges and Universities within HQ City	0.030***	0.024***	-0.033***	0.025***	-0.017***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Constant	-1.230***	-1.371***	-1.163***	-0.075	-0.245**
	(0.101)	(0.103)	(0.103)	(0.101)	(0.101)
Observations	12,771	12,771	12,771	12,771	12,771

Standard errors in parentheses

**** p<0.01, ** p<0.05, * p<0.1*

Table 7.2 - Robustness and Sensitivity Tests I

	Model 17	Model 18	Model 19	Model 20	Model 21	Model 22
	Rare Event	Standard Logistic Regression	Prior FDI since t-3 years	Prior FDI since t-5 years	TMT int'l experience (Prop Wise)	Average Education (Scale)
VARIABLES	**Entry**	**Entry**	**Entry**	**Entry**	**Entry**	**Entry**
Prior FDI	0.794***	0.808***	0.809***	0.825***	0.810***	0.806***
	(0.111)	(0.106)	(0.083)	(0.086)	(0.106)	(0.106)
Firm age	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Firm ROA	-0.827**	-0.804**	-0.816**	-0.814**	-0.821**	-0.814**
	(0.332)	(0.348)	(0.357)	(0.357)	(0.354)	(0.355)
R&D intensity	0.014	-0.012	-0.012	-0.012	-0.012	-0.012
	(0.017)	(0.027)	(0.028)	(0.028)	(0.027)	(0.028)
Firm int'l experience	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Prior presence	0.670***	0.678***	0.697***	0.688***	0.688***	0.696***
	(0.157)	(0.148)	(0.149)	(0.150)	(0.151)	(0.150)
Int'l investment agreement	-0.670***	-0.679***	-0.100	-0.161	-0.682***	-0.682***

	(0.130)	(0.151)	(0.193)	(0.192)	(0.152)	(0.152)
Rate of inflation	0.085***	0.085***	0.006	0.016	0.085***	0.085***
	(0.017)	(0.018)	(0.014)	(0.014)	(0.018)	(0.018)
GDP growth rate	0.110***	0.110***	0.041	0.025	0.111***	0.111***
	(0.020)	(0.022)	(0.027)	(0.027)	(0.022)	(0.022)
TMT size	0.016	0.016	0.017	0.017	0.021	0.019
	(0.017)	(0.017)	(0.018)	(0.018)	(0.018)	(0.018)
TMT average education	0.019	0.020	0.020	0.020	0.021	0.095
	(0.030)	(0.031)	(0.033)	(0.033)	(0.032)	(0.090)
TMT average tenure	0.052***	0.052***	0.052***	0.052***	0.049***	0.052***
	(0.011)	(0.011)	(0.012)	(0.012)	(0.012)	(0.012)
TMT average age	-0.016	-0.017	-0.015	-0.015	-0.015	-0.016
	(0.021)	(0.021)	(0.023)	(0.023)	(0.022)	(0.022)
Industry Dummies	Included	Included	Included	Included	Included	Included
Year Dummies	Included	Included	Included	Included	Included	Included
TMT int'l experience	-0.240	-0.184	-0.005	-0.117	-0.002	-0.181
	(0.594)	(0.566)	(0.268)	(0.294)	(0.021)	(0.568)
Prior FDI * TMT int'l experience	0.060	0.053	0.035	0.055	0.001	0.052
	(0.094)	(0.090)	(0.059)	(0.059)	(0.003)	(0.090)
TMT int'l experience diversity	0.145	0.136	0.047	0.060	0.119	0.134

	(0.111)	(0.094)	(0.047)	(0.053)	(0.090)	(0.094)
Prior FDI * TMT int'l experience diversity	-0.020	-0.019	-0.007	-0.009	-0.016	-0.019
	(0.018)	(0.015)	(0.011)	(0.011)	(0.015)	(0.015)
TMT tenure diversity	1.857	1.759	-0.218	-0.155	1.764	1.759
	(1.276)	(1.135)	(0.588)	(0.649)	(1.143)	(1.140)
Prior FDI * TMT tenure diversity	-0.317	-0.303*	0.023	0.008	-0.308*	-0.302*
	(0.204)	(0.180)	(0.127)	(0.127)	(0.182)	(0.181)
TMT education diversity	-3.440	-3.321	-0.173	-0.272	-3.266	-3.316
	(3.275)	(2.817)	(1.372)	(1.542)	(2.822)	(2.830)
Prior FDI * TMT education diversity	0.650	0.635	0.191	0.191	0.624	0.630
	(0.519)	(0.450)	(0.307)	(0.309)	(0.451)	(0.452)
TMT functional diversity	-8.855**	-7.882**	-4.005*	-4.483*	-8.104**	-7.986**
	(3.789)	(3.901)	(2.277)	(2.560)	(3.915)	(3.918)
Prior FDI * TMT functional diversity	1.438**	1.295**	0.966*	0.959*	1.327**	1.297**
	(0.616)	(0.639)	(0.525)	(0.530)	(0.642)	(0.642)
Constant	-9.930***	-10.054***	-7.907***	-8.327***	-10.216***	-10.222***
	(1.354)	(1.418)	(1.376)	(1.390)	(1.465)	(1.385)
Observations	12,771	12,771	12,771	12,771	12,771	12,771

Standard errors in parentheses

**** p<0.01, ** p<0.05, * p<0.1*

Table 7.3 - Robustness and Sensitivity Tests II

	Model 23	Model 24	Model 25	Model 26
	Excluding Japan	Excluding Taiwan	Excluding Vietnam	Excluding Japan and Taiwan
VARIABLES	Entry	Entry	Entry	Entry
Prior FDI	0.968***	0.660***	0.988***	0.831***
	(0.115)	(0.111)	(0.117)	(0.119)
Firm age	-0.001	-0.001	-0.002	-0.001
	(0.002)	(0.002)	(0.002)	(0.002)
Firm ROA	-0.859**	-0.847**	-0.934***	-0.892**
	(0.355)	(0.356)	(0.356)	(0.354)
R&D intensity	-0.012	-0.012	-0.013	-0.012
	(0.028)	(0.028)	(0.027)	(0.028)
Firm int'l experience	-0.000	0.000	-0.000	0.000
	(0.001)	(0.001)	(0.001)	(0.001)
Prior presence	0.654***	0.665***	0.640***	0.618***
	(0.151)	(0.153)	(0.156)	(0.154)
Int'l investment agreement	-0.558***	-0.978***	-0.839***	-0.881***
	(0.151)	(0.172)	(0.164)	(0.173)
Rate of inflation	0.088***	0.053***	0.076***	0.054***
	(0.018)	(0.020)	(0.019)	(0.020)
GDP growth rate	0.067***	0.095***	0.088***	0.041
	(0.025)	(0.023)	(0.023)	(0.027)

TMT size	0.019	0.019	0.018	0.019
	(0.018)	(0.018)	(0.018)	(0.018)
TMT average education	0.018	0.016	0.026	0.015
	(0.033)	(0.032)	(0.034)	(0.033)
TMT average tenure	0.051***	0.052***	0.057***	0.051***
	(0.012)	(0.012)	(0.012)	(0.012)
TMT average age	-0.014	-0.016	-0.018	-0.014
	(0.023)	(0.022)	(0.023)	(0.023)
Industry Dummies	Included	Included	Included	Included
Year Dummies	Included	Included	Included	Included
TMT int'l experience	-0.170	-0.193	-0.339	-0.189
	(0.579)	(0.559)	(0.678)	(0.570)
Prior FDI * TMT int'l experience	0.051	0.054	0.077	0.053
	(0.092)	(0.088)	(0.106)	(0.090)
TMT int'l experience diversity	0.142	0.128	0.047	0.136
	(0.097)	(0.094)	(0.129)	(0.097)
Prior FDI * TMT int'l experience diversity	-0.020	-0.018	-0.005	-0.020
	(0.016)	(0.015)	(0.020)	(0.016)
TMT tenure diversity	1.874	1.740	1.768	1.860
	(1.157)	(1.128)	(1.414)	(1.146)
Prior FDI * TMT tenure diversity	-0.319*	-0.301*	-0.294	-0.317*
	(0.184)	(0.179)	(0.221)	(0.182)
TMT education diversity	-3.191	-2.693	-2.336	-2.574
	(2.886)	(2.821)	(3.541)	(2.884)
Prior FDI * TMT education diversity	0.605	0.549	0.477	0.519
	(0.461)	(0.449)	(0.554)	(0.460)

TMT functional diversity	-8.817**	-8.393**	-13.404**	-9.282**
	(3.984)	(3.852)	(5.690)	(3.934)
Prior FDI * TMT functional diversity	1.458**	1.348**	2.142**	1.512**
	(0.656)	(0.632)	(0.913)	(0.648)
Constant	-10.863***	-8.757***	-11.100***	-9.455***
	(1.496)	(1.506)	(1.529)	(1.538)
Observations	11,610	11,610	11,610	10,449

Standard errors in parentheses
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

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