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MNEs Entry Strategies through a Distance Framework: A New Perspective

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Abstract

The aim of the paper is to conceptually reconcile entry-mode strategy with the CAGE distance framework, going beyond narrow country-level borders and turning its attention to firm-level analysis. This main objective is split into two complementary intentions: first, the transformation of CAGE to "C*I*GE" distance framework. And, second, the approach of "C*I*GE" through the reconciliation of the TCA and Institutional theory. The context of the present analysis is emerging markets, since such economies frame the emerging organizational arrangements, practices and structures within which firms operate. The basic argument of the paper is that entry strategies in emerging markets will be affected by both transaction and institutional considerations. The paper contributes to the existing literature by conceptualizing entry-mode choice via a pluralistic, in terms of distance, framework. It introduces institutional distance into CAGE and approaches institutional distance as a 'reservoir' of different institutional aspects that take into account challenges related to different institutional voids caused by various intermediaries. It integrates the reconciliation of TCA and Institutional theory into a unified distance setting in order to create a genuine interactive and dynamic conceptual basis on which TCA and institutional theory can apply. Last, it presents conceptual and managerial implications that open up new avenues for future empirical research.

JEL Classification: L22, L220, L24, L240
Keywords: Entry Mode Strategies; CAGE; Transaction Cost Theory; Institutional Theory; Emerging economies.

1. Introduction

The conceptualization of distance is perceived to be the 'workhorse' of international business (IB) research (Beugelsdijk et al., 2018). IB defines cross-national distance as the difference between national characteristics of home and host countries. Various authors have built on the different conceptualizations of distance (Beckerman, 1956; Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975), and subsequently, on the different factors affecting cross-national distance (Ghemawat, 2001; Berry et al., 2010) but the most prominent of them is attributed to Ghemawat (2001). In his view, countries may be 'distant' from each other not only in geographic terms (kilometers), but also because cultural, administrative/political and other economic differences, as they are described in the CAGE analytical framework, make it harder for firms to cross-border their activities.

Much attention has also been paid to the impact cross-national distance has on to the foreign market entry-mode chosen by Multinational Enterprises (MNEs). A review (Datta et al., 2002) limited to foreign market entry by U.S. firms or entry into the U.S. by non-US firms identified nearly 100 studies over the past decade. This is not surprising, since Datta et al. (2002) indicate that foreign market entry-mode choice is one of the most important strategic decisions in the internationalization process of a firm.

Different theoretical approaches have been used to approach entry-mode strategy decision including the Transaction Cost Approach (TCA) (Anderson and Gatignon, 1986), the Corporate Strategy Perspective (Caves and Mehra, 1986), the Learning Perspective (Barkema and Vermeulen, 1998), etc. Although these studies examine the determinants of entry-mode choice from different aspects, and have often been criticized for inconsistent results, they commonly posit that an entry-mode decision is based on MNEs' deliberate, conscious efforts to enhance their competitiveness, efficiency and control over critical resources (Yiu and Makino, 2002), leading us to the conclusion that the foreign market entry-mode decision and cross-national distance concepts emerge as key research topics in IB research.

While the reconciliation of distance and entry-mode choice has gained a lot of attention in IB research, concerns have emerged that this focus has elaborated on the narrow borders of country level analysis (Phillips et al., 2009; Larsen and Manning, 2015). However, at the other extreme of the spectrum, it is argued that cross-border activities occur at many geographical, cultural, economic and institutional levels (Ghemawat, 2001) which “tend to [involve] a wide variety of compositions” (Fujita and Krugman, 2004: 152)”. So, the country-centered analysis, albeit important, constrains researchers’ knowledge kaleidoscope on the institutional context that characterizes a particular country, putting aside “the actual {multidimensional} context of various “norms, standards and practices that determine socially acceptable patterns of organizational structures and actions” (Phillips et al., 2009: 343).

Therefore, there is no particular reason for limiting the present research to institutions and institutional differences examined exclusively in the context of national-level legal systems; this research should, rather, be expanded to also incorporate the conceptualization of firm-level analysis. In fact, firms are increasingly operating according to both formal and informal norms and practices that “cut across national country boundaries and that often emerge within particular industry contexts” (Larsen and Manning, 2015: 3). In institutional theory, this perspective of analysis is captured by the organizational field and, more specifically, by New Organizational Institutionalism (Hotho and Pedersen, 2012).

In this sense, the aim of the present paper is to conceptually reconcile entry-mode strategy with the CAGE distance framework, going beyond narrow country-level borders and turning its attention to firm-level analysis, considering the framework of emerging economies. This main objective is split into two complementary intentions: firstly, the transformation of CAGE to “C*I*GE” distance framework or else, the substitution of Administrative with Institutional Distance (Adamoglou and Kyrkilis, 2016).

And, second, the approach of "C*I*GE" through the reconciliation of two "seemingly contradictory interpretations of organizational phenomena" (Roberts and Greenwood, 1997: 346), namely, the TCA and Institutional theory, and, more specifically, on the basis of Scott's (1995) three institutional pillars, i.e., the regulative, the normative and the cognitive one.

These intentions are based on the premise that CAGE conceptual framework is a multilevel and comprehensive framework, which employs a variety of distance determinants (cultural, economic, geographic, etc.), while also providing a basis for the development of an 'envelop' approach. To put it simply, CAGE logically responds to the constant IB literature demand for providing a conceptual construct capable of distinguishing distance from other structural alternatives, such as geographic distance (Beugelsdijk et al., 2018), clustering the general conceptualization of distance into four distinctive sub-dimensions and initiating new determinants, such as institutional distance.

The very basic hypothesis this paper is based on is that foreign equity ownership decisions in emerging markets will be affected by both transaction and institutional considerations. So, it is argued that each form of distance produces uncertainties, which result in risks (costs) for the investing firm, because of the behavioral and environmental characteristics, on the one hand, and institutional characteristics (since entry mode choice is perceived as an institutional arrangement), on the other. So, according to TCA, in order to minimize said costs, and subsequently, achieve a risk-adjusted return, the firm will choose an institutional arrangement that lowers the costs derived from different forms of distance (cultural, institutional, geographic and economic), circumventing the market through internalizing its activities.

The context of the present analysis is emerging markets, since the institutional crisis and the following re-regulatory phase of these countries' institutional context provide an excellent research setting to explore how costs and uncertainty caused by weak institutions can affect entry mode options. Emerging economies frame the emerging organizational arrangements, practices and structures within which firms operate (Karademir and Yaprak, 2012). Furthermore, emerging economies share many common features related to the large diversified business environments they take place in (Chang and Hong, 2000; Maman, 2002) and have common roots in their institutional, social and political void configurations. As a corollary, the common denominator of these countries is that they are "in flux" (Cantwell et al., 2010), since they experience similar institutional immaturity, which is translated into similar transactional and institutional costs, as well as uncertainty for MNEs.

Considering all the above, this paper goes beyond extant research by integrating the conceptualization of entry-mode strategy into Ghemawat's (2001) distance framework or, else, by conceptualizing entry-mode choice via a pluralistic, in terms of distance, framework, i.e., CAGE. Furthermore, it introduces institutional distance into CAGE and approaches institutional distance as a 'reservoir' (Madhok and Liu, 2006) of different institutional aspects (sociological and economic perspectives) that take into account challenges related to institutional voids due to/caused by intermediaries, thus making institutions work properly (http://www.peoi.org/Courses/Coursessp/intlbus/ch/ch8d.html). Lastly, it applies the reconciliation of TCA and Institutional theory under the kaleidoscope of a unified conceptual setting to create a genuine interactive and dynamic conceptual basis on which TCA and institutional theory can apply.

The rest of the paper is constructed as follows: the next section reviews literature associated with entry strategies, distance and institutional theory. Section Three reconciles the TCA and Institutional Theory. Section Four presents CAGE distance framework and its criticism. Section Five elaborates on a comprehensive framework of analysis, which includes Cultural, Institutional, Geographic and Economic distance. Section Six presents the transformation of

"CAGE" to "C*I*GE". Section Seven presents discussion, theoretical and managerial implications. And last, section Eight offers suggestions for future research.

2. Entry Strategies, Distance, Institutional Theory and a Unified Framework

After a firm decides to enter a certain foreign market, it must choose a mode of entry, i.e., select an institutional arrangement (Anderson and Gatignon, 1986) for organizing and conducting international business transactions, such as contractual transfers, joint ventures (JV) or wholly owned subsidiaries (WOS) (Erramilli and Rao, 1993). The choice of the correct entry mode strategy for a particular foreign market is one of the most crucial decisions in international business (Terpstra and Sarathy, 1991), since it is connected with the theorizing of firms' costs and returns (Anderson and Gatignon, 1986; Erramilli and Rao, 1993).

A central place in the IB field, and more particularly concerning MNEs' entry mode strategies, is held by the notion of distance (Kogut and Singh, 1988). Generally speaking, the allurement of distance for entry mode theorizing is grounded on its "literal meaning related to geographic or physical distance, and its metaphorical one (Shenkar, 2012) referring to ''the collective differences between" (Zaheer et al., 2012, p. 20, as presented in Beugelsdijk et al., 2018: 3) different countries' entry mode choices.

Despite the significant conceptual and empirical attempts (Beckerman, 1956; Johanson and Vahlne, 1977; Dunning, 1979) to define it, distance is, mainly, constrained by psychic and cultural dimensions. In this direction, Kogut and Signh (1988) have significantly contributed to this construct, with the introduction of a composite cultural distance index, based on Hofstede (1980) four national cultural dimensions. The new composite index is easy to calculate and incorporates/facilitates the use of secondary datasets, which keeps increasing, in relevant research.

As a result of using the composite index, it has been shown by relevant research that cultural distance has an impact on an FDI's entry mode choice (Anderson and Gatignon, 1986; Kogut and Singh, 1988; Agarwal, 1994). It has, nevertheless, been recognized that no distinction is made in this approach between cultural distance and other parameters generating costs and uncertainties (Harzing, 2004). So, two weak assumptions have been formulated considering entry mode strategies and distance: first, entry-mode decisions are made "in isolation" (Kim and Hwang, 1992: 29), and second, entry-mode decisions are driven essentially by "efficiency considerations at the level of the individual entrant or subsidiary unit" (Kim and Hwang, 1992: 29).

As a remedy, scholars (Delios and Beamish, 1999; Brouthers and Brouthers, 2000) have redirected their interest into two conceptual paths. First, they have begun broadening the conceptualization of entry-mode choice by reconciling the "transaction cost-centered entry-mode theory with institutional reasoning" (Brouthers, 2013: 1), thereby producing a pluralistic version of entry-mode choice theory; and second, by engulfing a number of various factors, such as geographic and economic distance, which affect entry strategy decisions.

In this direction, Kogut and Singh (1988) and North (1990) have suggested that adding both institutional and cultural context variables to TCA enhances international understanding of entry-mode choice perception in four ways: first, institutional theory is well-equipped to distinguish the regulative from both the normative and the cognitive-cultural aspects (Scott, 1995), since it offers a separate interpretation for each aspect separately. Second, TCA is constructively expanded by institutional variables. This is due to the fact that such parameters take into consideration conditions undermining property rights or increasing exchange risks (Delios and Beamish, 1999; Brouthers, 2002). Third, transaction cost entry-mode models need to incorporate cultural variable into transaction cost, since managerial costs and uncertainty evaluations in target markets seem to be impacted by such variables (Brouthers and Brouthers, 2000). Finally, when measures of institutional, cultural, and transactional distances are included, they capture comparative differences at transaction level in relation to institutions, culture and the economy.

Additionally, Kostova (1999) and other researchers grounded the institutional distance concept on corresponding country profiles (see Xu and Shenkar, 2002; Eden and Miller, 2004). In this direction, scholars have also put forward new ways to calculate distance in the domain of entry strategy (Berry et al., 2010) through adding new dimensions to databases (Dow and Karunaratna, 2006), and using measures of psychic distance to develop perceptions (Håkanson and Ambos, 2010) - Ghemawat's holistic conceptual framework (2001) stands out among them, as the CAGE framework introduced incorporates economic, geographic and administrative distances besides the cultural one (Nell and Ambos, 2013; Mingo, Morales and Dau, 2018).

Therefore, in order to address and encapsulate the idiosyncrasies and conceptual innovations above, this paper goes one step further and asserts that entry strategies should be approached under the reconciliation of the two-dimensional perspectives, namely, the TCA and Institutional theory, and, specifically, through Organizational Institutionalism, as well as CAGE, which offers a unified conceptual setting.

3. Entry Strategies through TCA and New Organizational Institutionalism

Following the review of the theory of entry strategy determinants (Coase, 1937; Hymer, 1969, Vernon 1966; Williamson, 1985; Dunning, 1993, etc.) and the evaluation of the merit of each theory separately (Adamoglou, 2015), this section asserts that the TCA provides a conceptual backbone for the rigorous theoretical reconciliation of entry mode strategies with New Organizational Institutionalism on a sound premise because of the following reasons.

TCA emerges as a comparative efficiency (Klein and Shelanski, 1994; Roberts and Greenwood, 1997) theory, which has parsimoniously focused on intangible knowledge advantages of MNEs. To put it simply, TCA is a firm-level explanation of FDI, which can focus on the strategic decision-making of the MNE, while demonstrating the heterogeneity of firm-level behavior within any industry, since TCA connects mechanisms of firm specific characteristics with the environmental factor.

Consequently, a range of firm and host country factors are proposed, which have an impact on benefits and costs related to the different forms of partnership. When TCA arguments are used to explain, e.g., JV or WOS activities, support that whether one or the other is formed depends on 'disabling factors' that affect the market (Demirbag et al., 2010) and have to do with bounded rationality, opportunism and asset specificity (Williamson, 1985).

According to Kogut (1988: 320), the question raised by TCA in regard to entry mode is “how a firm should organize its boundary activities with other firms”. In other words, “when transaction is considered the basis of analysis and economic organization perceived as the main tool for cutting down business transactional cost over time, firms, markets and hybrid mixed modes are regarded as alternative governance structures by TCA” (Teece, 1986: 24), which, as such, are mainly chosen on the basis of their relative efficiency properties.

The attractiveness of TCA, however, is not limited to the above. TCA also has the capability of developing/considering any issue as a "contacting problem, which can be usefully examined through the lens of a transaction cost economizing perspective" (Williamson, 1998: 1089). This approach draws its theoretical logic from the argument that TCA reasoning is the product of two recent and complementary fields of economic research, namely, the New Economics of Organization and Institutional theory (Williamson, 1998), and, more specifically, New Institutional Economics.

According to New Institutional Economics, international businesses are affected by the host-country's institutions due to the impact the latter have on an MNE's uncertainties and costs when it initially establishes itself. In other words, the institutional framework influences both local investment performance and alternative governance structure appropriateness. "For, instance, MNEs are more likely to enter through WOS in host countries with less-developed institutions" (Hotho and Pedersen, 2012: 243), when they would enter a country with more-developed institutions through a JV. This means that the form and operation of markets and organizations, as well as economic performance, are directly impacted by how effective host-country institutions are and what the level of their quality is. "Thus, applications of New Institutional Economics in IB generally conceptualize institutions on the country level" (Hotho and Pedersen, 2012: 243).

This country-centered analysis, albeit important for entry mode choice theory purposes, tends to constrain researchers' knowledge kaleidoscope on the institutional context that characterizes a particular country, bypassing "the actual {multidimensional} institutional context" (Phillips et al., 2009: 512) MNEs encounter in a specific industry. In this sense, scholars have asserted that cross-border activities, and, especially, entry mode decisions, occur at many geographical, cultural, economic and institutional levels (Ghemawat, 2001), which "tend to [involve] a wide variety of compositions" (Fujita and Krugman, 2004: 152).

This multidimensional perspective "highlights the approach that the nature of the institutional context MNEs encounter often depends on the various kinds of business that they are engaged in", and, subsequently, vary "in scope rather than the country level" (Phillips et al., 2009: 343). The 'operational field' or, more specifically the 'New Organizational Institutionalism' is the term used in institutional theory to refer to this analysis approach (Hotho and Pedersen, 2012).

New Organizational Institutionalism as opposed to New Institutional Economics indicates that it is not only formal institutions but also normative and cultural-cognitive aspects that affect social behavior (DiMaggio and Powell, 1983). Besides, it underlines the fact that there are three isomorphic pressures exerted in organizational practices and structures, namely the coercive, the mimetic and the normative) (Hotho and Pedersen, 2012). So, two aspects emerge in the equation of New Organizational Institutionalism and entry mode strategies: entry strategies that prevail in a host institutional environment and reflect ways of acting deriving from shared regulative, cognitive and normative frames" (Morgan and Kristensen, 2006: 1470), as well as organizations (MNEs); these latter ones operate while observing institutionalized attitudes, since such conformity endows them with legitimacy, facilitates access to resources and allows them to survive (Meyer and Rowan, 1977). This is termed as isomorphism.

It can, therefore, be deduced that recent studies suggest normative and cognitive may well play a decisive role in the shaping and implementation of strategies, rather than be a mere background to them, define the kind of MNEs business and create competitive advantages (Meyer et al., 2009). "This is particularly true in emerging economies where institutional frameworks differ significantly from those of developed economies" (Demirbag et al., 2010: 710). Therefore, this paper focuses on the conceptual reconciliation of TCA and New

Organizational Institutionalism as a useful means for sidestepping the peculiarities of regulative institutions while broadening the rationale of entry mode strategy with the normative and cognitive dimensions of institutions.

4. The CAGE framework

Previous studies in areas of international trade, industrial organization and market imperfections identified a number of factors that influence the choice of an entry mode for a selected target market. Traditionally, this conceptual and empirical attempt incarnated through psychic and cultural distance. The initial attempt to define the notion of distance was conducted through psychic distance, most notably by Beckerman (1956). In his view, "international transactions are determined not only by the costs of overcoming physical distances, such as transportation and tariffs, but also by the costs associated with the collection and interpretation of the information required to effect such information" (Ambos and Håkanson, 2014: 2).

The definition of psychic distance has substantially changed since its first use in Beckerman's (1956) study. Hymer (1960) has highlighted that a key-factor shaping the internationalization of the firm is the so-called 'liability of foreignness', which tends to increase with the distance between home and host countries. Furthermore, Johanson and Vahlne (1977: 24) have supported that distance refers to ''differences in language, education, business practices, culture, and industrial development''. Similarly, Nordstrom and Vahlne (1994: 42) have defined psychic distance as "factors preventing or disturbing a firm's learning about and understanding of a foreign environment".

O'Grady and Lane (1996: 330) have defined psychic distance as "...a firm's degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there." For their part, Barkema et al. (1996: 153) have developed ''linguistic, institutional, cultural, and political factors'', but they have operationalized them in terms of cultural distance and cultural blocs of countries.

Hennart and Larimo (1998: 517), who have approached distance from a transaction-cost perspective, have restricted their definition to ''national cultural characteristics of the home and host countries'', basing their measurement on Hofstede's data. However, one of the key-contributions, in this domain, is attributed to the seminal work by Dunning (1979; 1993) who asserted that "the extent to which a country's enterprises serve particular markets or serve them from one location rather than another will vary according to characteristics of home and host countries and the physical and/or 'psychic' and 'economic distance' between them".

Dunning (1979: 284) has asserted that the concept of 'psychic' distance "has been particularly developed by Swedish economists and it refers to circumstances that prevail or restrain the flow of goods and/or payments between business and market". In other words, distance depends on differences in the level of development between the home country and the foreign market, in their forms of education, language, culture, and customs, and their legal and commercial systems.

Much later, Dunning and Lundan (2008) , through the eclectic paradigm (OLI), emphasized the importance of cross-national distance, proposing a multidimensional perspective of ownership, locational and internalization advantages, not only by delimiting distance as the differences in economic level between host and home country, but also by including institutional level (legal and commercial systems) and cultural (education, language, culture, and customs) factors of both countries.

Although the definition of psychic distance was quite broad, most subsequent studies have narrowed it and have conceptualized psychic distance as merely cultural distance (Shenkar, 2001; Tihanyi et al., 2005). While some of these studies have found evidence that MNEs tend to go to culturally similar countries (Bilkey and Tesar, 1977), others have found that cultural distance does not have a significant role in explaining market entry (Benito and Gripsrurd, 1992). In a meta-analysis of relevant literature, Tihanyi et al. (2005) reported that results fail to provide evidence of a significant relationship between cultural distance, international diversification or firm performance. Consequently, many prominent studies have returned to the original broader definition of psychic distance and proposed various dimensions on the basis of which distance can be measured.

Among them, an exceptional position is held by the work of Ghemawat (2001), who developed the most comprehensive framework. He developed his concepts on the premise that distance produces “risks and costs”, which “result from barriers created by distance” (Ghemawat 2001: 3). In this manner, Ghemawat’s article, “Distance Still Matters: The Hard Reality of Global Expansion” discusses the reasons and rationale that drive companies to over-estimate profit potential in foreign markets. He analyzes the failures of different companies’ (News Corp, Tricon Restaurants, etc.) foreign expansion endeavors to determine what these failures have in common and concluding that they share one common attribute: a failure to account for distance.

In this perspective, CAGE proposes that companies erroneously utilize an inadequate and incorrect modality when deciding on foreign expansion, namely, the country portfolio analysis (CPA). The CPA focuses on national GDP, levels of consumer wealth and people’s propensity to consume, but it tends to bypass “the costs and risks of doing business in the market.” These costs are grouped into a category classified as 'distance', which is itself sub-divided into four dimensions: Cultural, Administrative/Political, Geographic and Economic distance (CAGE).

4.1 Criticism of CAGE

Despite Ghemawat (2001) has developed a fresh and novel methodology construct regarding the kind of the dimensions, he still misses some important aspects. According to Berry, Guillén and Zhou (2010), CAGE does not go far enough in recognizing the complexities of distance given that it does not take into consideration important dimensions, including variables related to finance, politics, demography, knowledge and global connectedness. In a similar manner, Angué and Mayrhofer (2010) have asserted that while, on the one hand, CAGE contribution can be used as an analytical framework for examining the role of distance for international operations in general and for cooperative strategies in particular. On the other hand, this framework does not provide details about their operationalization and, further, it fails to engulf specific dimension-related aspects, such as technological distance.

At other times, it is supported that CAGE does not offer guidance to the specific empirical indicators to be used to capture each of the four dimensions that it discusses. In still other circumstances, it is formulated that studies of this kind tend to be “broad” and to “make a deterministic assumption: distance is “symmetric or directionless” (Cuervo-Cazura and Genc, 2012). Thus, a main idiosyncrasy emerges: researchers view the movement from Country A to Country B as posing the same challenges as moving from Country B to Country A (Cuervo- Cazura and Genc, 2012).

Under these conditions and recognizing that the CAGE Distance framework lacks some important aspects. This paper supplements the idiosyncrasies above by proposing that first, CAGE does not approach its dimensions under the lens of a unified theoretical approach, such as the Corporate Strategy Perspective, the Learning Perspective, the TCA, the OLI paradigm, etc.

Second, CAGE fails to label clearly which variables compose each dimension. Instead it employs a general perspective, which aims at including a wide range of factors without stressing on specific characteristics and attributes of each dimension. As a corollary, a blurred environment is created regarding the capability of each dimension to accommodate specific conceptualizations.

More specifically, economic distance as developed by CAGE focuses exclusively on wealth or income match between a pair of countries, excluding other contemporary variables developed on the basis of international economic relations between countries, such as BITs. However, BITs from their origins, among others, have constructed to guarantee MNEs the appropriate entry mode choice, and subsequently, to secure MNEs' smooth economic transactions free of dispute costs.

Further, the administrative distance, which mainly comprises political associations between two countries, focuses exclusively on specific aspects of the institutional framework, failing to take into account the broader institutional context a firm decides to enter. This failure comes in contrast with institutional theory, in general, and institutional distance, in particular: the former perceives administrative structures as part of a broader system which takes place at many levels (Scott, 1995), while the latter, i.e., institutional distance, distinguishes and classifies differences between countries concerning regulative, normative, and cognitive institutions, illustrating a more comprehensive institutional perspective capable of deciphering which specific "variant" predominantly affects an entry mode choice (Adamoglou and Kyrkilis, 2016).

Finally, geographic distance, which mainly comprises the physical size of a country, i.e., average distances within-the-country, access to waterways, oceans, etc., bypasses critical conceptualizations related to linguistic and colonial factors, and, most notably, the country's historical ties. However, the conceptualization of historical ties is significant in the domain of entry strategy theory. In this direction, scholars (Kedia and Bilgili, 2015) placed at the heart of their agenda how historical ties react under the dilemma of WOS or JV, since WOS, that is the collaboration of similar organizational structures, may promote trust, which in turn, intensifies economic exchanges and, finally, leads to stronger social relations ,between the parties involved, while JVs lead to quite the opposite results.

In this framework, this paper, despite recognizing the idiosyncrasies above, suggests the adoption of CAGE as a useful tool to interpret the theorizing of entry strategies by proposing an alternative framework of analysis.

5. A Framework of Analysis

5.1 Cultural Distance

Generally speaking, cultural distance has been approached under the lens of many different understandings and conceptions, which derived from different methodological assumptions (Kluckhohn, 1951; Hofstede 1980; Schwartz, 1992, 1999; Triandis, 1994). More specifically, it has been identified that, during the past 60 years, there have been 164 definitions (Kroeber and Kluckhohn, 1952) and four main distinct conceptual constructs: the studies by Hofstede (1980, 2001), Schwartz (1992, 1999), Trompenaars and Hampden-Turner (1997) and House et al. (2004).

This paper, having reviewed the merits of each definition and conceptual construct

(Adamoglou, 2015) and having, also, recognized scholars' attempts (Erramilli, 1991; Padmanabhan and Cho, 1996) to attribute the inexplicit effect of cultural distance on ownership strategies to methodological issues, such as the idiosyncrasies of GLOBE and Hofstede constructs (Kim and Gray, 2009; Morschett, Schramm-Klein and Swoboda, 2008), concludes on two points: First, culture broadly describes the human-made part of the environment (Herskovits, 1955), or a "group's characteristic way of perceiving its social environment" (Triandis, 1972: 3). Furthermore, it entails the 'shoulds' and 'oughts' of life that guide "the meaning we attach to aspects of the world around us" (Earley, 2006: 925). More specifically, culture provides people within a society with a common system of communication (Hall, 1976) and a common definition of identity (Camilleri, 1989) (Wilken et al., 2013: 700).

And second, Hofstede's model -the one most frequently applied- as well as the much more recent GLOBE model by House et al. (2004) have provided scholars with much-needed insights into the structure of national cultures. So, cultural distance should be viewed through Hofstede and GLOBE frameworks for the following reasons:

First, ever since the publication of House et al.'s GLOBE model in 2004, there has been a non-stop debate between Hofstede and the GLOBE team; it has culminated in 2010 as reflected in the special issue on "Culture in International Business Research" in Journal of International Business Studies. While Hofstede's work is not the first systematic study on Cross-Cultural Research (CCR), his cultural dimensions has succeeded in putting CCR at the forefront of IB research; his influence in the fields of IB and management has remained undeniable despite criticisms voiced against his study over a long time.

Second, the GLOBE cultural dimension model has emerged as one of the most recent studies (Chhokar et al., 2007) on organizational values and cultures. GLOBE study is less criticized than Hofstede's work, not because it contains fewer controversial issues, but perhaps because it is much more recent, and, therefore, researchers have not yet fully analyzed or tested it.

Third, the GLOBE project reasonably explains organizational level through the mechanisms of institutional theory, and more specifically, through isomorphism or through the interaction among industrial, organizational and societal characteristics within a national culture, something which clearly responds to the needs of this research. In this sense, it is argued that organizational cultures become "isomorphic" with the societal cultures in which they are embedded, indicating that "organizational cultures pass on the interacting effect of societal cultures on professional behavior" (Bik, 2010: 88).

Fourth, while Schwartz's (1994) cultural value dimensions are distinct from Hofstede's, there exist significant conceptual similarities and empirical associations between the two sets of dimensions (Hofstede, 2001). For instance, conceptually Schwartz's autonomy/embeddedness dimension and Hofstede's individualism/collectivism present a continuum overlap since "both autonomy and individualism are associated with the notion of optimistic, responsible enjoyment, while embeddedness and collectivism reflect the broader concept of fulfilling one's duty with the existing social order" (Ahn, 2005: 55).

This conceptual similarity is further supported by strong empirical associations (Schwartz, 1994). It is argued that Schwartz's dimensions are an improvement on Hofstede's in that the former used an exhaustive set of universal conceptual dimensions ("etic") and gave particular attention to issues like the effect of sample size, historical change, distinction between culture-level and individual-level dimensions, meanings that are far from the defined conceptual framework followed in this project.

Last, despite its numerous merits, the Schwartz's and Trompenaars' models have not been applied as extensively as the Hofstede's and GLOBE frameworks in IB. This lack of empirical testing may be due to the nature of value dimensions, which makes it difficult to use multivariate statistical techniques (Steenkamp, 2001). Nevertheless, these theoretical frameworks are soundly founded and rigorously measured, while offering useful theoretical insight potential for further studying MNEs behavior. For these reasons, cultural distance, herein, is suggested to be approached using both GLOBE and Hofstede's models.

5.2 Institutional Distance

This paper, by considering the three institutional options (New Institutional Economics, New Organizational Institutionalism, Comparative Institutionalism) and the two main institutional approaches to IB research, as well as the sociological perspective (regulative, normative and cognitive pillars) attributed to Scott (1995) and the economic institutional perspective (formal and informal institutions) mainly affected by the work of Douglas North (1990), chooses to develop "C*I*GE" on the basis of New Organizational Institutionalism as the appropriate complimentary conceptual basis with TCA, as described above, and, subsequently, on Scott's (1995) three institutional pillars.

What is important to stress here, however, is that the cognitive and normative aspects of a country's institutional context are conceptually close to its culture, whereas the regulatory aspect is unique to a country's institutional context and not captured by culture (Kostova, 1999). Consequently, many papers examine the normative and cognitive aspects together, via culture (e.g., Kogut and Singh, 1988; Jensen and Szulanski, 2004).

To be more concrete, Kostova (1999) points out that, in some cases, scholars emphasize the cognitive nature of culture, while, in other cases, scholars stress its normative component. In still other circumstances, scholars employ cultural factors to analyze the cognitive dimension (e.g., Gaur et al., 2007) of distance, while others use culture to examine the normative dimension and the effect of cross-country differences on firms' strategic behavior (e.g., Busenitz et al., 2000; Shenkar, 2001; Yiu and Makino, 2002) (Hernàndez and Nieto, 2012). In this sense, Chao and Kumar (2006) argued that this situation masks a theoretical overlap between cognitive/cultural and normative institutional dimensions, the latter being treated as a higher order factor (Hoffman, 1999; Gaur and Lu, 2007; Gaur et al., 2007).

Therefore, in order to bypass the idiosyncrasy described above, this paper is primarily based on Redding's (2008) analysis, which contends that culture *per se* is not necessarily a dominant determinant of events, since the cultural framework is significant and also different from the institutional framework- defining this difference as "societal effect"- and deserves a place in its own right. Thus, this paper asserts that institutional distance is composed of a regulatory and a normative pillar, whereas the cognitive pillar is incorporated in the cultural dimension of the CAGE construct.

5.3 Geographic Distance

Amongst the entry-mode variables investigated in relevant literature, geographic distance has received comparatively less attention by scholars. In fact, in entry mode literature (e.g., Kinoshita and Campos, 2003; Pusterla and Resmini, 2007) geographic distance has, in most cases, served either as a control, as a proxy for cultural (Shenkar, 2001) and psychic distance (Kogut and Singh, 1988; Groose and Goldberg, 1991) or as a proxy for gravity models (Fratianni and Oh, 2009).

In the first decade of 2000s, however, geographic scholars have started to redirect the conceptualization of geographic distance by engulfing new dimensions, such as historical ties. Relevant literature (Makino and Tsang, 2010; Kedia and Bilgili, 2015) in its attempt to decodify the importance of historical ties distinguishes them into formal and informal ones.

In this sense, it is suggested that formalities (security alliances, and economic partnerships) can promote trust between the parties involved, because greater trust may enhance a host country's ability to attract more FDI flows (Rangan and Sengul, 2009). Furthermore, informal ties may also promote economic exchanges through frequent interactions between nations over large periods of time, which result in stronger social relations and promote shared values and beliefs between the parties involved.

According to Kedia and Bilgili (2015: 925), "countries with similar informal ties also share similar institutional structures and business practices". Similarly, Ghemawat (2001) and Lundan and Jones (2001) conclude that historical ties do create the basis for reducing uncertainty between firms, since historical ties foster commonalities (Kedia and Bilgili, 2015), and consequently, business uniformity and continuity. As such, geographic distance is likely to generate economic and management costs, such as communication and coordination when firms expanding geographically distant markets (Choi and Yeniyurt, 2015).

To this end, a number of studies have stressed the connection between historical ties and entry mode choices. For instance, it has been pointed out that it would be difficult for an MNE to work in a JV with partners that come from very different informal ties as they typically have different organizational structures (Kogut and Singh, 1988), communication and management styles (Hennart and Zeng, 2002). So as geographic distance increases (Daft and Lengel, 1986), the cost and complexity of knowledge transfer increase and communication decreases, making harder for MNEs to build a collaborating environment (Choi and Yeniyurt, 2015). Although WOS may also be subjected to such 'internal conflicts' among employees from different historical ties, such misunderstandings are less likely to become a source of "internal inconsistency' at organizational level (Tsang, 1994), since MNEs, through WOS, secure their investment by retaining the ability to implement decisions and resolve disputes that may arise from differences in historical ties.

All the above are particularly important for emerging economies, which tend to function in the absence of basic institutional guarantees, e.g., well-established economic environments, and they tend to forge their economic relations, to an extent, on the basis of existing historical ties or with countries that are in inherent geographic proximity.

So, given the affiliation between historical ties and geographic distance, it is suggested that the notion of geographic distance should include, in its conceptual reservoir, the dimension of historical ties as a key-means capable of creating space in the understanding of how geographic distance and entry mode strategies affect managerial choices in emerging economies.

5.4 Economic Distance

Traditionally, economic distance between two countries often reflects differences in cost factors, such as wages and proprietary knowledge, both important determinants affecting FDI strategy decisions. In entry strategic terms, many empirical studies have also shown that economic distance is closely related to entry mode choice under different aspects. The major part of this domain (Zejan, 1990; Padmanabhan and Cho, 1995) focused its attention on the wealth and income match between specific pairs of countries that have achieved international development. This conceptual and empirical reconciliation was further enhanced by other strands of literature, such as international competitiveness (Bell, 1996; Child and Rodrigues, 2005; Rugman et al., 2011).

However, as of the early 90s, it was observed that there was also increasing attention (Hallward-Driemeier, 2003; Tobin and Rose-Ackerman, 2005) on how BITs affect FDI. This takes place because BITs have become "the most important international legal mechanism for encouragement and governance" of FDI (Elkins et al., 2004, p. 0). In fact, the preambles of the thousands of existing BITs state that the purpose of BITs is to promote, to protect and to facilitate foreign investment, while reducing the costs and risks the investor faces. In this sense, BITs, among others, grant MNEs certain rights concerning their entry-mode strategies into the host country, by guaranteeing foreign investors a certain standard of choice and treatment, thereby establishing a mechanism for potential international dispute settlement.

For instance, some countries prohibit FDI in the oil and gas sector altogether, while others only allow minority foreign shareholding. According to UNCTAD (2007a: 159) estimate, "in 2005, MNEs from developed countries had unrestricted access to only 10 per cent of the world's known oil reserves, and to another 7 per cent through joint ventures with State-owned national oil companies". So, this paper, recognizing the mounting importance of BITs in the FDI domain, as well as the lack of evidence considering entry strategies and BITs, suggests that the approach of economic distance should be viewed under the lens of BITs for the following reasons:

First, BITs may facilitate international investment. Second, international investment may facilitate economic prosperity. Third, BITs may facilitate a specific type of FDI, such as WOS or JV, thereby directing the type of entry mode choice according to the needs of the host institutional environment in which the MNEs are going to operate. Finally, BITs may be examined through New Organizational Institutionalism and TCA.

According to New Organizational Institutionalism, the adoption of BITs in a host emerging economy signals its "transition form an ethnocentric to a geocentric perspective" (Trevino et al., 2008: 123). This transition, however, does not refer to regulative institutions. Instead, it concerns the normative and cognitive components of institutions, since, in order to achieve a successful adjustment of its social and general values to BITs, an emerging economy host country needs to first adjust the managers' organizational cultural perspective (normative, before adjusting their general views according to the geocentric perspective, and finally, incorporating these attitudes in the countries' regulative institutions. So, the introduction of BITs into an emerging economy host country passes through a country's normative and cognitive filters, thereby making BITs one of the main modulators that may initiate the notion of institutional change, and, subsequently, transforming MNEs into institutional entrepreneurs.

In entry strategy terms, what is described above means that BITs may ensure that by adopting a specific type of entry strategy MNEs that adoption of a specific type of entry strategy reduces entry-mode choice-related costs, while, "at the same time, signals to foreign investors that the host country has undertaken institutional reforms towards building a market economy" (Trevino et al., 2008: 123). It can, therefore, be deduced that BITs may play a key role in the type the choice of an entry mode, and, should, consequently, be incorporated into economic distance.

6. From CAGE to "C*I*GE"

This paper, having proposed the reconciliation of TCA and New Organizational Institutionalism as an appropriate theoretical backbone for the analysis of entry- mode choice and a suitable framework of analyzing each dimension. Thus, the paper proceeds to argue that distance is perceived as the differences/dissimilarities between two countries (country A and country B) and it is represented through four forms of distance:

- Cultural distance, which is approached as the extent of dissimilarity/difference between two countries in cognitive (beliefs and norms) terms. This means that culture molds behavior from the values that make up the perceptions of the world and societal norms (Root, 1987; Adamoglou and Kyrkilis, 2016).

- Institutional distance, which is approached as a measure of cross-country differences (Kostova and Zaheer, 1999), and refers to the extent of dissimilarity between regulatory (social aspects) and normative (business aspects) institutions that characterize relevant organizational fields in the home and host environments (Phillips et al., 2009: 343; Adamoglou and kyrkilis, 2016).

- Geographic distance, which is approached as the difference/dissimilarity in historical ties between two countries (Adamoglou and Kyrkilis, 2016).

- And, lastly, economic distance, which is approached as the differences in the institutional environment (BITs) that significantly affect FDI equity mode decisions (Adamoglou and kyrkilis, 2016).

In this framework, it is hypothesized that each form of distance produces uncertainties, which result in risks (costs) for the investing firm, due to behavioral and environmental characteristics, on the one hand, and institutional characteristics (since entry mode choice is perceived as an institutional arrangement), on the other. The former distance includes bounded rationality, opportunism, asset specificity, disturbances or “small-numbers bargaining” and frequency (Williamson, 1985), while the latter includes considerations necessary for the MNE to gain legitimacy in the appropriate host country environments under uncertain conditions. So, according to TCA, MNEs are coordinators of some rent-yielding firm- and institutional-specific advantages. MNEs enter a foreign market in order to exploit such advantages in the most efficient manner. However, firm- and institutional-specific advantages under the assumption of bounded rationality and opportunism tend to increase associated costs for MNEs. As a result, MNEs will orient their strategic attention towards selecting an entry mode choice that minimizes both firm- and institutional-specific costs.

7. Discussion

Despite the fact that entry mode choice literature has made progress and shifted its focus towards an institution-based view, little is known about how institutional perspectives may affect strategic choices through the GAGE holistic framework. Thus, this paper focuses on the need to substitute administrative by institutional distance in an attempt to employ a broader institutional framework. The context of the present analysis is emerging markets, since the institutional crisis and the following re-regulatory phase of these countries institutional context provide an excellent research setting to explore how costs and uncertainty due to weak institutions can affect two specific entry mode strategies.

To this end, the aim of the present paper is to shed a fresh and innovative perspective on the above by reconciling conceptually FDI equity mode strategy with CAGE distance framework. This aim is split into two complimentary intentions: first, the transformation of the CAGE distance framework to “C*I*GE” distance framework. Put it simply, the substitution of Administrative with Institutional Distance. And second, the approach of the new distance framework through TCA and New Organizational Institutionalism.

In this setting, it is argued that cultural distance may be approached through cognitive dimension and constructed through the GLOBE and Hofstede’s indices; institutional distance through regulative and normative distance; geographic distance through historical ties and economic distance through BITs.

The very basic hypothesis this paper is based on is that foreign equity ownership decisions in an emerging market will be affected by both transaction cost and institutional considerations. So, it is argued that each form of distance produces uncertainties, which are resulted in risks (costs) for the investing firm, because of the behavioral and environmental characteristics, on the one hand, and institutional characteristics (since entry mode choice is perceived as an institutional arrangement), on the other hand. Then, and according to TCA, the firm in order to minimize these costs, and subsequently, to achieve a risk-adjusted return will choose that institutional arrangement, for instance WOS or JV, which lowers the costs derived from different forms of distance (cultural, institutional, geographic, and economic) circumventing the market through internalizing their activities.

Synthesizing all the above, it is deduced that this paper goes beyond extant research by integrating the conceptualization of entry-mode strategy into Ghemawat's (2001) distance framework or, else, by conceptualizing entry-mode choice via a pluralistic, in terms of distance, framework, i.e., CAGE. Furthermore, it introduces institutional distance into CAGE and approaches institutional distance as a 'reservoir' (Madhok and Liu, 2006) of different institutional aspects (sociological and economic perspectives) that take into account challenges related to institutional voids due to/caused by intermediaries, thus making institutions work properly (http://www.peoi.org/Courses/Coursessp/intlbus/ch/ch8d.html). Lastly, it applies the reconciliation of TCA and Institutional theory under the kaleidoscope of a unified conceptual setting to create a genuine interactive and dynamic conceptual basis on which TCA and institutional theory can apply.

7.1 Conceptual and Managerial Implications

7.1.1 Conceptual Implications

This paper reconciles three domains, namely: entry-mode choice strategy, TCA and Institutional theory by presenting an abstract illustration of the design of the entry-mode adoption problem (Roberts and Greenwood, 1997). Let us consider an MNE that enters an emerging economy, for instance, through WOS or JV, and then, this entrance brings about changes in the composition of MNEs' costs, calculated in both efficiency and institutional cognitive, normative and cultural terms. In this manner, this paper makes a conceptual contribution to literature related to how different forms of distance interact with firms' strategic choices (Peng et al., 2008) under the lens of New Organizational Institutionalism and TCA.

So, on a theoretical basis, the most obvious implication of "C*I*GE" is its provision of coherent and a holistic conceptual setting, in which both transactional and institutional frictions are introduced and contribute to TCA and institutional reasoning, respectively.

From a transaction-cost perspective, the "C*I*GE" framework may strengthen ongoing efforts to enhance the dynamic properties of TCA. Arguably, the "C*I*GE" broadens the conceptualization of MNEs' entry mode efficiency reasoning to include purely sociological perspectives, such as normative ones, highlighting the boundary conditions of an MNE. Therefore, the "C*I*GE" distance construct helps us understand how relatively insufficient institutional arrangements - entry-mode choices- persist in some emerging countries.

From an institutional perspective, "C*I*GE" also helps institutional theory bypass some of its idiosyncrasies. One of the main objections to institutional theory is that it is overly passive, static or deterministic. In other words, it perceives institutions not in terms of diversity, but in terms of isomorphism (Roberts and Greenwood, 1997). However, when "C*I*GE" is viewed through using Organizational Institutionalism and TCA, this static approach loses its significance when counterpointed to pressures of the inertia of institutionalism and the pursuit of higher efficiency by organizations. As a corollary, "C*I*GE" offers a "built-in rationale" (Roberts and Greenwood, 1997) for approaching institutional differences.

From a geographic perspective, this paper, in response to calls echoed by Jones and Khanna's request (2006) for bringing history back to IB research, goes one step further by initiating the notion of historical ties into geographic distance, as well as by conceptually reconciling the notion of historical ties with entry mode choices under the lens of a unified framework.

Last but not least, from an economic perspective, this paper broadens the concept of economic distance by involving BITs in economic distance and approaching them through New Organizational Institutionalism and TCA reasoning. To this end, economic distance within the "C*I*GE" framework illustrates that entry-mode strategy is a process that may also emphasize MNEs agency in the host institutional environment. BITs, through New Organizational Institutionalism, sidestep the preoccupied (through regulative institutions) way managers affect the host institutional environment, by activating the motion of a normative 'pendulum' and initiating the conceptualization of an agentic view in institutional and TCA reasoning.

7.1.2 Managerial implications

In managerial terms, the analytical presentation of "C*I*GE" focuses on specific guidelines for MNEs operating in emerging economy institutional environments. In this direction, by and large, managers should consider not only the administrative distance, when approaching an emerging economy, but also the spherical and comprehensive institutional perspective, which will help them understand the dynamics of national economic change through regulative, normative and cognitive dimensions. This will enable managers to develop adaptive and flexible entry-strategies anchored on sound understanding of the host country's institutional background and effective coping mechanisms so as to navigate through various institutional barriers that might adversely affect their international market entry prospects (Adamoglou and Kyrkilis, 2016).

More specifically, the "C*I*GE", through the reconciliation of TCA and New Organizational Institutionalism, will create the basis for managers to evaluate the appropriate entry-mode option out from the black box of country level analysis, clearly considering both the specific industry characteristics of the nature of the institutional context and the kind of business they are going to engage in.

In this manner, they will be able to widen their perspective and embrace the agentic view relating to institutional theory or institutional entrepreneurship. This is a way for senior executives/decision-makers to tackle the conundrum of embedded agency, while enabling them to also weigh their impact in changing the institutional aspects they are part of themselves.

Subsequently, managers will become active agents who view contradictory/controversial institutional contexts as opportunities (Emibayer and Mische, 1998; Hotho and Pedersen, 2012) for responding in varied and, to some extent, unique ways. Thus, in unstable emerging economies, managers with favorable social positions may act as institutional entrepreneurs who can, to some extent, influence the host institutional environment within which they operate.

In the same line, MNEs will be perceived as appropriate institutional and organizational configuration settings (Madhok and Liu, 2006) depicted as a kind of sub-institution (Yiu and Makino, 2002)- or sub-economy (Madhok and Liu, 2006)- that "encompasses institutional competitive advantages" (Dunning and Fortanier, 2007; Dunning and Lundan, 2008: 582) or capabilities produced at different paces (Madhook and Liu, 2006) (see examples in García-

Cabrera and Durán-Herrera, 2016) for each firm.

8. Future Research

Further research would expand investigation into several directions. Firstly, empirical research would enhance the credibility of the present paper, following the initial first attempt by Adamoglou and Kyrkilis (2016). Secondly, the analysis of specific ownership patterns over time would enhance our understanding of the impact of institutional changes on equity compositions of subsidiaries. Thirdly, the classification of investing countries into developed and emerging economies would also provide new and in-depth understanding of the way MNEs invest either in a country of the same development level or in a more developed country. Fourthly, studies comparing countries with similar development levels to those of emerging economies and diverse culture dimensions would provide an in-depth insight into the role of the institutional environment and organizational factors in ownership structures of subsidiaries in emerging market economies. Last but not least, the analysis of specific contexts in terms of the industry level at which parent firms operate (e.g., non-manufacturing, manufacturing, electronics, and automobiles sectors) or from other institutional perspectives, such as comparative institutionalism or institutional ecology (Zhou and Van Witteloostuijn, 2010), would also broaden the conceptual basis of the "C*I*GE" framework construct.

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