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Institutional distances and entry modes of multinational companies into foreign countries: a systematic literature review

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1 INTRODUCTION

The integration of the economic perspective (North, 1990) and the sociological perspective (DiMaggio & Powell, 1983; Scott, 2014) of institutional theory contributed towards establishing a connection between multinational enterprises (MNEs) and institutions and transforming this connection into a topic for some of the most robust studies in the field of international business (IB) (Xu & Shenkar, 2002). The establishment and administration of value-generating activities in foreign locations involve complex transactions between two parties that are separated by political, economic, geographical, and social differences. The rules of the game (North, 1990) of each location have significant implications for MNEs (Kim & Aguilera, 2016).

Despite decades of research on entry modes in IB field (Slangen & Hennart, 2007) and the challenge of Shaver (2013), questioning the need for more studies on entry mode, Hennart and Slangen (2015) emphasized the importance of studying the factors that influence entry mode choice in developed and emerging markets. The results of empirical studies have not provided a clear consensus on the effect of certain variables on entry mode (Morschett, Schramm-Klein, & Swoboda, 2010). There is room for further studies and an examination of whether causal relationships between the institutional environment and entry mode choice can be moderated or complemented by other specific characteristics/variables of the firm or the external environment.

A detailed analysis of all the factors that influence entry mode would be too broad in scope for a single study. Therefore, this study focuses on examining the influence of the institutional environment on decisions that involve the choice of entry mode. The emphasis is on the role played by the institutional dimensions from two perspectives of the institutional theory, organizational institutionalism and economic institutionalism (Kostova et al., 2019), in choosing the kind of investment a firm will make in a foreign market.

The present study intends to contribute to the IB literature and the interface with institutions. It aims to clearly show how researchers approach the way formal and informal institutions (from an economic viewpoint), and the regulatory, normative, and cognitive dimensions (from a sociological perspective), are related, and how these influence decisions on entry mode. This study also expands the knowledge about which institutions attract foreign investments and influence the entry mode choice.

2. METHODOLOGY

The method chosen for this systematic review followed the directives proposed by Petticrew and Roberts (2006) and Briner and Denyer (2012). The systematic review method reduces bias, increases objectivity, and identifies gaps in the literature. Thus, following a systematic approach to review the literature on entry modes into foreign markets, we sought to provide critical insights through a theoretical synthesis to uncover how formal and informal institutions (economic perspective) of institutional theory, or its regulatory, normative and cultural-cognitive dimensions (sociological perspective), affect a firm’s choice of entry mode into international markets.

This systematic review used the databases of Scopus and Web of Science (WoS) to select the relevant articles, in which both databases contain the highest number of indexed publications.

We have not established a time frame for the literature search. Instead, we leave the start and end date of the research open to capture all of the literature on institutional distances and entry mode. Although the seminal article of Anderson and Gatignon on the choice of entry mode into foreign markets was published in 1986, our search detected studies that addressed the influence of formal and informal institutional forces or the regulatory, normative and cognitive dimensions of institutions on the entry mode of MNEs into foreign markets beginning with the article of Yiu and Makino (2002).

The search concentrated on articles from literature reviews and peer-reviewed theoretical and empirical articles published in IB and management journals. We place special emphasis on references cited in articles from literature reviews on "entry modes" and articles published in the main outlets on IB, which are the Journal of International Business Studies (JIBS), International Business Review (IBR), Journal of World Business (JWB), and Management International Review (MIR). Journals that do not focus on IB but which publish material on this field of study were also researched, including the Strategic Management Journal (SMJ), Global Strategic Journal (GSJ), Academy of Management Journal (AMJ), Journal of Management Studies (JMS), Journal of Management (JoM), and Journal of Global Marketing (JGM).

2.1 Search strategy

In the first stage, our search strategy focused on identifying seminal articles on entry modes into the international market that used the institutional theory as support. We found Brouthers (2002), Kostova (1999), Xu and Shenkar (2002) and Yiu and Makino (2002), and these articles served as a relevant reference. In the second stage, based on these articles from the review, we broadened our search to analyze the cited references. In the third stage, we expanded our search, identifying all the articles with the keywords "Entry-mode", "Institutional theory", "entry strategy" and "mode selection". This search resulted in a set of 135 articles.

2.2 Article selection

The studies had to address entry modes into international markets based on institutional theory and, specifically, institutional distances as antecedents of the entry mode. For this purpose, we used a filter, "institutional distance", on the base of selected articles. With this filter, we excluded 62 articles. The remaining articles (73) formed the initial base for analysis (Figure 1).

When comparing articles from both databases (Scopus and WoS), we removed duplicate articles. Following this, we exported the abstracts of the remaining articles (38 articles) to a spreadsheet and analyzed them to determine whether they adhered to the aim of the study. After this analysis, it resulted in 32 articles that we evaluated from the perspective of quality, downloaded, read, and filed. In addition, we incorporate 14 articles and 4 book chapters from the references of the analyzed articles. After all steps, we achieve 50 studies that constituted the basis of our systematic review (Table 1).

The analysis revealed that of the 50 studies, 23 (46%) were published in the last 5 years (2015-2019), and 15 (from 2010 to 2014) in the last 10 years. These numbers reveal that the study of the influence of institutional distance on entry mode is a relatively new theme and has attracted growing interest in the last 5 years. The selected articles were published in 28 journals and 4 books, while IBR, JIBS, JWB, JIM, JoM, IMR, JGM, and MIR were responsible for publishing 26 of these studies (52%).

2.3 Collected data and information

We collected the basic information on the studies such as author(s), country/region of study, issue in question, sample size, industrial sector, firm size, form of data collection (survey, secondary data or both), variables and source of data and analytical (statistical) method, results, and suggestions for future studies. The studies are integrated into narrative form, describing the results. Table 2 includes the theoretical perspective adopted in such studies. The outcomes of these studies reveal the direct and moderating influence of the institutional distances on the entry mode choice, and the conclusions obtained from the empirical tests on the selected samples.

The theoretical perspectives of institutional sociology (Scott, 2014) and institutional economics (North, 1990) supported the collected studies. However, some works, despite using the same constructs and variables, were not based on the frameworks of these authors. They used another theoretical strand, or they are variable-driven.

Table 2 – How institutional distances influence entry mode – findings

Regulatory, normative and cognitive institutions
In high regulatory, normative and cognitive distances it is more likely that the MNE choose an entry mode with low level of participation. On the other side, some firms maintain a high level of control over their subsidiaries (JV) in the same institutional environment to remain in alignment with the head office (Kittilaksanawong, 2009).
Regulatory distance moderate the influence of mimetic behavior on entry mode (Ang et al., 2015), and it explains the option of MNE subsidiaries in Turkey for WOS (Adamoglou & Kyrkilis, 2018).
Positive regulatory distance moderates the relationships between normative and cultural-cognitive distances and entry mode into foreign countries (Hernández & Nieto, 2012), but it does not affect decisions on the level of ownership (or control) in a greenfield project or acquisition (Mueller et al., 2017).
Negative regulatory distance cannot mitigate the impact of normative and cultural-cognitive differences on the entry mode (Hernández & Nieto, 2012). It indicates a smaller resource commitment (Hernández & Nieto, 2015), and JV is recommended as a way of overcoming the lack of knowledge of the formal and informal institutional environment of the host country (Hernández & Nieto, 2012).
MNE from emerging countries make a joint greenfield investment with their international partners , when the regulatory distance is negative (Mueller et al., 2017).
Regulatory and normative restrictions suggest MNE Japanese to form a JV (Yiu & Makino, 2002), while indicate that MNEs with investments in Turkey prefer joint ventures with majority control (Adamoglou & Kyrkilis, 2018).
Normative institutions have no moderating effect on entry mode (Ang et al., 2015), and they have less influence than regulatory and cognitive institutions (Adamoglou & Kyrkilis, 2018; Yiu & Makino, 2002).
Normative institutions do not influence the control strategy of the subsidiaries of Chinese MNEs (Lee et al..2014), but MNE subsidiaries in Turkey opt for co-ownership JV, when normative distances are high (Adamoglou & Kyrkilis, 2018).
In high normative institutional distances MNE prefer JV with low equity levels (Kaynak et al., 2007). The normative distance also increases the likelihood of European MNEs adopting joint ventures in their investments in foreign markets (Hernández & Nieto, 2012).
The normative and cognitive distances pose the greatest challenges compared with regulatory distance for firm to adapt to the institutional pressures of the host country, and require a high level of interaction with local peers to ensure legitimacy and access to local business networks (Adeola et al., 2018).
In cultural-cognitive distance the preference for collaborative investments increases (Adeola et al., 2018; Hernández & Nieto, 2012)
The greater the regulatory and administrative distance, the lower the MNE's stake in the subsidiary's capital (Lee et al., 2014).
High levels of regulatory quality and economic freedom in host attract higher volumes of FDI (Lucke & Eichler, 2016).

Table 2 – How institutional distances influence entry mode – findings (continued)

Formal and informal institutions
In countries with legal systems less developed MNE is more likely to opt for total control either in greenfield investments or acquisitions (Mueller et al., 2017).
Formal institutions moderates the relationship between the firm's experience in international markets and ownership level suggesting that MNEs from emerging countries are more likely to reduce the ownership level of their subsidiaries in high formal institutions distance (Li et al., 2017).
Formal and informal institutional distances have a negative effect on entry mode. The experience of other firms in the host country mitigates the negative effect (Jiang, Holburn, & Beamish, 2014).
MNEs from developed countries enter Vietnam through acquisitions when formal and informal institutional distances are high (Van Dut et al., 2018).
High country risk results in preference of greenfield investment in emerging economies (Arslan & Larimo, 2011).
High formal institutional distance results in preference of acquisitions (partially owned) rather than greenfield investments, while high informal distance results in the establishment of greenfield subsidiary (Arslan & Larimo, 2011).
Cultural distance
Higher cultural distances between home and host countries tend to encourage cross border M&A outflow from China (Boateng et al., 2017).
Investors seem to be attracted to countries with a less diverse society (cultural dimensions) than their own (Lucke & Eichler, 2016).
Cultural distance suggests that emerging MNE that move to foreign markets have a preference for a greenfield investment (Chueke & Borini, 2014).
Cultural and geographic distances positively affect the equity level of Chinese MNEs in their subsidiaries (Lee et al., (2014),
High cultural distance lead to the choice of full acquisitions rather than partial acquisitions (Arslan & Wang, 2015).
Institutional distance
For large political distances, retailers depart from their preferred entry mode in subsequent entries. Cultural distance is not significant (Swoboda et al., 2015).
Disaggregating the construct provides greater robustness in tests that involve evaluating institutional differences between countries (Berry et al., 2010).
Entry into distant locations generally occurs through a JV or low investment in the host country (Kittilaksanawong, 2009).
MNEs prefer to enter with total control of their subsidiaries (WOS), when the administrative and geographic distances are high or low. In moderate distances they prefer a JV (Batsakis & Singh, 2019).
The geographic distance is a significant factor for explaining the various ownership strategies of European MNEs in their subsidiaries in Turkey (Adamoglou & Kyrkilis, 2018).
An increase in political constraints increases the likelihood of choosing a JV with majority or equal stake participation (Demirbag et al., 2007).
Fewer political constraints in developed host countries suggests that Turkish MNE would be more willing to choose WOS over JV, but in emerging host countries they will be more in favor of adopting JVs (Demirbag et al., 2009).
An increase in linguistic distance decreases the probability of the venture being WOS (Demirbag et al., 2009).
If the perceived investment risk is high, it is more likely that MNE choose a greenfield entry mode in Turkey (Demirbag et al., 2008).
Strong IP institutions are more likely to drive emerging MNE to choose full over partial acquisitions when entering European countries (Ahammad et al., 2018)
The higher the distance of property rights and government spending, the higher the probability of developed and emerging MNE to undertake a full acquisition (DeBeulle et al., 2014).
A high distance of trade and investment freedom implies a higher probability of developed MNE to undertake a partial ownership (DeBeulle et al., 2014).
Emerging MNE prefer to adopt a full acquisition strategy when moving to a market-based economy that ensure more investment and trade oportunities (DeBeulle et al., 2014).

3. ENTRY MODES

The choice of entry mode into an external market is a crucial decision that has been extensively analyzed in the literature (Brouthers & Hennart, 2007; Morschett et al., 2010). Studies assume that entry mode choice allows firms' strategies to improve competitiveness, efficiency, and control of critical resources. Furthermore, the literature recognizes that success and failure of a strategy are mainly determined by the chosen and implemented entry mode (Anderson & Gatignon, 1986; Brouthers, 2002, 2013; Ragland, Widmier, & Brouthers, 2015).

Several theoretical streams and their ramifications have been used to explain the choice of entry mode into foreign markets. Literature reviews have pointed out the most common as Transaction Cost Theory, Eclectic Paradigm and Institutional Theory (Canabal & White, 2008; Datta, Herrmann, & Rasheed, 2002; De Villa, Rajwani, & Lawton, 2015; Laufs & Schwens, 2014; Schellenberg, Harker, & Jafari, 2018; Surdu & Mellahi, 2016). Some authors add the Uppsala Model to this list (Canabal & White, 2008; Datta et al., 2002; De Villa et al., 2015; Schellenberg et al., 2018; Surdu & Mellahi, 2016), along with the Real Options model (Datta et al., 2002; De Villa et al., 2015) and the RBV (Datta et al., 2002; Schellenberg et al., 2018; Canabal & White, 2008). These theories offer different premises regarding the relative importance of the factors that influence entry mode choice.

When they decide to invest in new markets, MNEs determine the degree of ownership of their operations overseas (Lee, Hemmert, & Kim, 2014). In the IB literature, entry modes have been categorized as non-equity-based (no direct investments abroad, such as exports and contractual agreements) and equity-based (when there is a direct investment) (De Villa et al., 2015; Kumar & Subramaniam, 1997; Pan & Tse, 2000). In the equity-based entry mode, MNEs may set up wholly-owned subsidiaries (WOS) or share ownership with partners by forming joint ventures with a majority, equal or minority control (Lee, Hemmert, & Kim, 2014).

By taking a lower share in a culturally distant country, an MNE can learn the local culture from its partner and use the partner's social network to minimize possible cultural rifts (Yiu & Makino, 2002). On the other hand, when home and host countries have a common political history or even the same language, religion or legal system, MNEs believe that it is easier to adapt to the local environment and thus commit more resources for investment in the host country (Guler & Guillen, 2010). Perceived uncertainty can be reduced, albeit partially, when countries are similar in one or more of the dimensions as mentioned earlier (political background, language, religion or legal system) (Lee, Hemmert, & Kim (2014).

Institutional variables do not only influence entry mode but also the level of resources that the MNE will commit to the host country. The legal aspects of the host country are important in the decision to form an international alliance and consequently select a partner for an international joint venture (Roy & Oliver, 2009). The perception that the legal rules of the host country may be flawed and affect the repatriation of income and/or increase coordination costs is a factor that might hinder intentions to form an international alliance (Roy & Oliver, 2009).

4. INSTITUTIONAL DISTANCES

The IB literature analyzes the differences between the home and host countries and the impact of institutional distances on a firm's entry mode into international markets (Kostova, 1999). Originating in institutional theory (DiMaggio & Powell, 1983, 1991; North, 1990; Scott, 2014), institutional distance has to do with the differences/dissimilarities between normative, cognitive and regulatory institutions of two countries (Kostova & Zaheer, 1999; Xu & Shenkar, 2002). Formal institutions (laws and regulations) and informal institutions (norms, values, and beliefs) shape a company's behavior and performance (North, 1990; Scott, 2014).

Two lines of research have contributed to the concept of distance substantially influencing the empirical literature on IB. The first line is the research conducted by Hofstede, which culminated in empirical measurements of national culture for 54 countries. The second is attributed to Kogut and Singh (1988), who combined the contributions of the Uppsala model and Hofstede's data to create the national cultural distance index (Dow, 2017). The Kogut and Singh (1988) index replaced geographical distance and came to be used as a rigorous measurement of distance in the IB literature (Harzing, 2003).

Some researchers have argued that cultural distance has less explanatory power compared with other indices used to measure differences between countries, such as language, religion, industrial development, education, and degree of democracy (Dow & Larimo, 2009). Other studies have shown that there is no evidence of a direct systematic effect of cultural distance on entry mode (Dow & Ferencikova, 2010; Morschett et al., 2010; Slangen & van Tulder, 2009) and on ownership level (Demirbag et al., 2009).

4.1 Institutional distances: sociological perspective

The literature defined institutions and institutional distances through the adopted institutional perspective. The sociological perspective emphasizes the mechanism of legitimacy, which means that the firm seeks acceptance in an unfamiliar and distant environment (Kostova & Zaheer, 1999; Xu & Shenkar, 2002). The search for legitimacy to establish and maintain economic activity in an institutional environment that is different from the home country involves high costs and risks. These costs include time to understand the institutional order, costs of adjusting to the institutional requirements of multiple countries where the firm operates, challenges and barriers to overcome in the drive for external legitimacy (of the environment) and increased internal and external complexity (Kostova et al., 2019).

Ang et al. (2015) investigated the effects of interaction between the perception of the institutional environment of the host country (cognitive dimension) and differences in the regulatory and normative dimensions between the home country and host country in a context of acquisitions and cross border alliances between MNEs from six emerging economies. Significant levels of mimetic behavior (cognitive dimension) were identified, with the MNEs copying ownership frameworks and control of local firms. Furthermore, these researchers found that whereas regulatory distance moderated the influence of mimetic behavior on entry mode, the normative distance had no moderating effect.

Brouthers et al. (2008) also used institutional distance to conduct an empirical test on the influence of institutions, moderating the relationship between competitive advantage and entry mode. The distances between the home country and host country included country risk and legal distance (regulatory dimension), attitudes in terms of requesting government benefits, avoiding paying for public transport, illegal fiscal planning, and accepting bribes (normative and cognitive dimensions). The moderation of the institutional variables may provide a better explanation of the choice of entry mode when the firm has a competitive advantage (tangible and intangible resources) (Brouthers, Brouthers, & Werner, 2008).

Lucke and Eichler (2016) used absolute and relative distances between countries as explanatory variables of inward and outward FDI. High levels of regulatory quality (clear and predictable economic policies) and economic freedom (open markets and free competition) attract higher volumes of FDI. Furthermore, investors appear to be attracted to investments in countries with less social diversity than their own. It seems to make sense since cultural diversity can cause tensions in relationships between communities and adverse reactions to new investments and innovations (Lucke & Eichler, 2016).

The direction of institutional distance is a new variable in an attempt to confer greater robustness on the association between distance and the entry and governance modes of the subsidiary of the MNE in the new market (Mueller et al., 2017; Hernández & Nieto, 2015). In addition to calculating the absolute distance between home and host countries, it adds the information on the direction (sign) of this distance. The sign of this distance is negative if the MNE's host country has less developed institutions than its home country. When the MNE moves into a country with more developed institutions, the sign of this distance is positive (Mueller et al., 2017).

Another new way of measuring the institutional distance between countries is added distance. Researchers have argued that it does not make much sense to take the distance between home and host country when an MNE already has international experience and operates in other foreign markets. It would make sense to take this experience into account and measure the distance not from the MNE's home country but rather from the country where it already operates (Hutzschenreuter, Voll, & Verbeke, 2011;Batsakis and Singh,2019).

Regulatory institutions and cognitive institutions have a strong influence on the entry mode choice of Japanese MNEs into international markets. The head office decides to form a JV when the firm enters a foreign country where the regulatory and normative restrictions are relatively strong. On the other hand, the decision made by competitors (mimetic behavior) and the head office (historical norms) regarding entry modes into the country strongly influence the decisions of Japanese MNEs (Yiu & Makino, 2002). Normative institutions, represented by cultural aspects, have less influence than regulatory and cognitive institutions (Adamoglou & Kyrkilis, 2018; Yiu & Makino, 2002), and they do not influence the control strategy of the subsidiaries of Chinese MNEs (Lee et al., 2014).

Normative and cognitive distances are considered the ones that pose the greatest challenges compared with the regulatory distance to adapt to the institutional pressures of the host country (Adeola et al., 2018). Regulatory institutions positively moderate the relationships between normative and cultural-cognitive distances and entry mode into foreign countries. However, in countries with a low regulatory development level, MNEs have greater difficulty overcoming the influence of normative and cultural-cognitive distances. Negative regulatory distances (host country with less regulatory development than the MNE's home country) cannot mitigate the impact of normative and cultural-cognitive differences on the entry mode and, consequently, JV is still recommended as a way of overcoming the lack of knowledge of the formal and informal institutional environment of the host country (Hernández & Nieto, 2012).

4.2 Institutional distances: Economic perspective

The emphasis of the institutional economy is not on legitimacy; neither is it on the liability of foreignness or adapting to a given country, but rather on the quality of the institutional environment, support for economic activity and the coordination between economic actors (Kostova et al., 2019). Formal institutions in a less developed country tend to increase the firm's costs due to the inefficiency of its market mechanisms. Distance from the perspective of the institutional economy depends on the institutional quality of the home and host countries, specific risks and costs, the types of organizational outcomes that could be most affected, and the possible solutions to overcome the challenges of distance (Kostova et al., 2019).

High formal institutional distances increase the likelihood of MNEs opting for acquisitions rather than greenfield projects (Arslan & Larimo, 2011; van Dut et al., 2018; Chueke & Borini, 2014). On the other hand, high informal institutional distances result in greenfield projects (Arslan & Larimo, 2011; Chueke & Borini, 2014). Greenfield investments allow the subsidiary to integrate into the corporate structure of the head office but can also incorporate a certain level of flexibility to adjust to local requirements and demands (Slangen & Hennart, 2008). The organization can adjust to local demands with local employees who understand the norms, values, and routines accepted by the host country (Xu et al., 2004).

All researchers do not share the notion that a greenfield project can be justified when the informal institutional distances between home and host country are high. Van dut et al. (2018) argued that when comparing greenfield subsidiaries with acquired subsidiaries, the latter find it easier to communicate with the locals and thus have a greater opportunity to obtain knowledge from the local organization, and this is of benefit to the MNE. The greenfield subsidiary has less knowledge of the local culture, which means problems communicating with its peers, hindering efforts to gain legitimacy (Meyer, 2001).

The context and the indicators used as proxies to measure the distances of formal and informal institutions have different results when the entry mode is analyzed. MNEs from developed countries enter Vietnam through acquisitions when the distances of formal institutions (regulatory institutions) and informal institutions (cultural distance) are high (Van Dut et al., 2018). However, studies with samples of MNEs from developed countries that internationalize to emerging countries (Arslan & Larimo, 2011), and MNEs from emerging countries that move to foreign markets (Chueke & Borini, 2014), indicate that these firms have a preference for a greenfield investment when the cultural distance between the home and host country is high.

5. DISCUSSION

This systematic review includes an examination and critique of the literature on institutions and the entry mode of MNEs into foreign markets. We focused on the influence that institutional differences between home and host countries have on the entry mode and the MNE's level of control over the operations of its affiliate in another country. The institutional differences encompass the concepts of institutional distance (differences between the institutions of the home and host country) and the institutional context (institutional characteristics of the home and host country).

Harzing and Pudelko (2016), in a study of the explanatory power of cultural distance, found that a third of all the studies that employ this construct to explain entry mode choice found a particular effect, while another third found the opposite effect, and the remainder no effect. Cultural distance, when based on the index of Kogut and Singh, is a weak predictor of entry mode choice (Harzing & Pudelko, 2016). One of the reasons for this may lie in the MNE's expansion strategy (Slangen & Hennart, 2007). An MNE that intends to integrate its subsidiary into its corporate network is more likely to opt for a greenfield project than an acquisition in culturally distant countries. Acquisitions become attractive when the strategy is to give the subsidiary autonomy to use local practices (Slangen & Hennart, 2007).

Shenkar (2001) argued that some premises that support the concept of cultural distance might be the reason for conflicting results regarding entry mode choice. One of these premises is the illusion of stability. It is not plausible to imagine that a country's culture remains stable over time. Another premise is the illusion of symmetry. Although distance is symmetrical by definition, the distance between Country A and Country B is not the same as between Countries B and A. The influence of the distance from A to B (e.g., from a developed to a developing country) is different when we look at the perspective of B in relation to A (from a developing country to a developed one). The effects of home and host countries are of a different nature and influence entry mode choice in dissimilar ways.

The common practice of measuring external uncertainty through the proxies of "cultural distance" or "political risk" is not the right way. Neither cultural distance nor political risk adequately gauges external uncertainty (Slangen & van Tulder, 2009). Researchers should refrain from using these proxies to measure external uncertainty and replace them with the quality of governance of the target country or its most important dimensions, which are the effectiveness of the government, regulatory quality, and control of corruption (Slangen & van Tulder, 2009).

Berry, Guillén, and Zhou (2010) criticized the methodological limitations of the Euclidean approach to distances between countries and proposed calculating dyadic distances using the Mahalanobis method, taking into consideration the variance-covariance matrix. Moreover, they proposed disaggregating the distance construct in a set of multidimensional measurements to achieve greater robustness in tests that involve evaluating institutional differences between countries. The solution to explaining a complex phenomenon such as entry mode choice is not in the conceptualization of new distances but may lie in examining the context and in variables that can exemplify and measure specific characteristics of both the home and host country that influence decision making on entry mode (Harzing & Pudelko, 2016.

Barriers against the entry of foreign investments, access to resources, repatriation of capital, and even cultural traits of the host country could have greater explanatory power regarding entry mode choice than economic, political, geographic, and even cultural distances between the home country and the destination of the investments. Shenkar's (2001) criticism of cultural distance also applies to other constructs that measure distances (Zaheer et al., 2012).

There is evidence that the firm's strategy (exploitation or exploration) can influence its entry mode (Luo, 2002). However, we found few studies that consider strategy as an explanatory or even control variable to entry mode. The entry strategy, in addition to the characteristics of the firm or institutional distances, may be strongly associated with entry mode.

The literature has not analyzed the role of the manager and his influence on entry mode. We found no studies that considered the idiosyncratic power of the manager, his international experience, and political connections as factors that are involved in decisions on entry mode choice. The manager's tacit knowledge and experience guide his behavior and may be relevant in studies on entry mode and governance.

6 LIMITATIONS AND PROPOSED AGENDA

Internationalization theories are complementary, and a model with greater explanatory power should be based on multiple theoretical perspectives (Hill et al., 1990; Tihanyi, Griffith, Russell, 2005). Integrating the insights of multiple theories (e.g., Brouthers, 2002; Gaur & Lu, 2007) is a suggestion for future studies. Research designs that only use variables from one theoretical approach could lead to biased statistical tests with missing variables, producing inconclusive and insignificant results. Thus, future studies should look at the combined effect of different variables in a multi-theory approach (Morschett et al., 2010; Canabal & White, 2008).

The similarity to other firms and the adoption of local norms and standards mitigate institutional pressures and facilitates the entry of new firms and access to the market of inputs and products. The similarity between firms may be the result of a deliberate strategy rather than compliance with external isomorphic pressures (Kostova, Roth, & Dacin, 2008). Future studies can focus on which countries and institutional and market characteristics make firms susceptible to isomorphic behavior. Investment risk may not only be attributed to laws and rules (regulatory pressures), but also economic issues (Ghemawat, 2001). MNEs from developed and developing countries may be more or less prone to risk and differ in mimetic behavior. A comparative study could help to confirm studies that have already been conducted with a single home country (Jiang et al., 2014).

Theories that take managerial experience and different degrees of risk aversion into account could lead to new insights into which factors at the firm and institutional level and in the perception of managers have the greatest impact on entry mode choice. The institutional perspective could also be used to explore the role that individual agents in the home and host country play in minimizing the influence of institutional distance (Kostova & Roth, 2002). These agents (managers) are essential in the decision making and outcomes of the subsidiary as they resolve conflicts (Schotter & Beamish, 2011), develop political connections (internal and external) (Dörrenbächer & Geppert, 2009), and are important links with the external environment (Cano-Kollmann, Cantwell, Hannigan, Mudambi, & Song, 2016). Micro-level surveys are opportune to better understand how managers perceive and make decisions regarding entry into international markets, incorporating the institutional environment of the home and host markets in decision making.

Studies have addressed entry mode choice as a decision that is independent of other entry decisions of the firm. MNEs have a portfolio of entry strategies in multiple markets. In these cases, entry strategies used by the firm in other markets might influence the choice of entry mode into a specific market. The nature of these interdependencies and the influence of institutional variables of the host country on each entry is an interesting research question that future research could explore.

Studies on the factors that influence entry mode have tested institutional variables as independent and moderating, either using the formal and informal institutional distances between home and host countries or using the differences between the home and host countries' profiles. The literature questioned very little the internationalization strategy of the firm (Mueller et al., 2017), and this is considered a factor that could explain choices regarding entry mode and the level of ownership of a subsidiary. An exploitation strategy requires a different entry mode than that of an exploration strategy. Future studies can investigate under which conditions firms follow these strategies and how formal institutional distances can moderate the relationship between the strategy and the establishment and ownership mode.

MNEs tend to form alliances in countries where normative and regulatory distances are high in order to gain access to local knowledge and reduce the commitment of resources. It is plausible to imagine that different institutional strengths have different impacts (Peng, Sun, Pinkham, & Chen, 2009) on MNEs' governance modes. Future studies could compare the experience of MNEs from developed and emerging economies in other emerging markets. The varying intensity of institutional strengths would provide insights into the influence of institutions on MNEs from developed and developing countries, and the influence of the origin of an MNE on governance mode.

The magnitude and direction of institutional distance may influence entry mode choice. Hernandez and Nieto (2015) tested a sample of European SMEs that internationalized and proved that not only the magnitude but also the direction of the regulatory distance between home and host country affected entry mode into foreign markets. Future research can test the effect of the magnitude and direction of normative and cultural-cognitive distances on the entry mode of MNEs (not SMEs) into foreign markets and provide new insights regarding the level of influence of these institutions. The influence of the cultural-cognitive direction on entry mode can prove the theory that internationalization to less institutionally developed countries increases the likelihood that an MNE will imitate local firms to gain legitimacy and ensure its ability to conduct business in the host country. Furthermore, the effect of the direction of institutional distance can be tested with MNEs from emerging countries that sought other foreign markets.

The concept of the three distinct institutional pillars (regulatory, normative, and cognitive) led to the presumption that each one acted independently to explain the isomorphic behavior of the firm (Greenwood & Meyer, 2008). Contrary to what was believed, institutional mechanisms do not act independently (Ang, Benischke, & Doh, 2015). The three pillars operate jointly. One influences the other, and they all explain the isomorphic tendencies in the entry mode. Testing this moderation and understanding how one pillar influences the other could lead to good insights. Other interactions among three institutional pillars could influence the behavior of MNEs about entry mode. It is reasonable to suppose that when normative and regulatory distances increase, MNEs tend to form alliances to allow access to local technology and simultaneously reduce resource commitment. Researching these interactions could increase knowledge of the significance of the moderation of each pillar regarding the mode of governance.

Past entries influenced future entries. However, the context must be considered as it may be a limitation to this association. Studies have confirmed the association between past entries and future entries for the industry (Yiu and Makino, 2002; Lu, 2002) and the retail sector (Swoboda et al., 2015). External (regulatory) institutional pressures reduce the use of past entries, but moderating variables such as political or cultural distance between home and host countries can mitigate regulatory pressures (Swoboda et al., 2015). Future studies could test other external moderating variables (such as economic and administrative variables) and internal ones (such as changes in the level of control of the subsidiary or the top management team), and analyze the effects of these moderations by industry and the home country of the MNE (developed or developing economies).

Notes: Table 1 – List of selected papers, and Figure 1 – Steps for selecting relevant papers for the review are available upon request. The asterisk (*) symbol in references denotes studies included in the systematic review.

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