

Foreign sequential entry mode choice: a structural inertia perspective and evidence from Chinese firms

Abstract

Purpose – This study aims to use the theoretical perspective of structural inertia as a unique lens to study the foreign sequential entry mode choices of multinational firms.

Design/methodology/approach – We adopt a quantitative analysis of a sample of 121 Chinese publicly listed firms with 564 foreign entry incidents in the 2001-2012 period to test our hypotheses.

Findings – The empirical results show that multinational firms have a tendency to adopt the same mode in the subsequent entry as the number of prior entry mode choices of a given type (joint venture in our study) increases. The results support the theoretical prediction that organizations repeat their past activities due to structural inertia. Moreover, such an inertia effect in foreign sequential entry mode choices becomes stronger for older multinational firms, larger multinational firms and state-owned multinational firms.

Research limitations – Consistent with existing research, our study focuses on the entry mode choice between joint ventures and wholly owned subsidiaries. However, it is better to examine the relationship identified in our study for different types of entry mode choices in order to assess result generalizability.

Practical implications – It reminds managers of multinational firms that they should be cautious about the influence of structural inertia, which can be a barrier to strategic

flexibility, when making entry mode choices.

Originality/value – The main contribution of our study resides in introducing a structural inertia perspective to help understand the determinants of foreign sequential entry mode choices of multinational firms.

Keywords Structural inertia theory, Firm age, Firm size, Ownership identity, Sequential entry mode choice

Paper type Research paper

Introduction

Researchers in organizational ecology have long noted that organizations value reliability and accountability in the face of environmental changes (Hannan and Freeman, 1977). Organizational reliability and accountability require that organizational structures and strategies be highly reproducible (Kelly and Amburgey, 1991). Therefore, organizations tend to exhibit structural inertia, which refers to the tendency of organizations to resist changes in order to maintain their current way of doing things (Shimizu and Hitt, 2005; Schwarz, 2012). The most important issues regarding the applicability of structural inertia theory concern the changes in the environments in which the organizations are embedded (Hannan and Freeman, 1984). For many years, environmental changes occurring in domestic settings were the focus of past studies following the introduction of structural inertia theory (Miller and Chen, 1994). However, with the acceleration of global economic integration, more and more companies enter and operate in foreign countries. They face environmental changes stemming from the transition from their home country to another country (Guillén, 2002). This pattern of cross-national environmental changes often occurs in a very short time and is thus relatively more radical (Brouthers, 2013). Therefore, the questions of whether the rationale of structural inertia theory still holds in the case of foreign expansion and how structural inertia matters for international business (IB) research have begun to attract the attention of organizational theorists. There is a small but growing body of IB literature applying a structural inertia perspective to study the internationalization process of multinational firms, such as location choice

(Guillén, 2002; Yuan and Pangarkar, 2010), divestitures of acquired firms (Shimizu and Hitt, 2005) and merger activities (Amburgey and Miner, 2010).

To extend this line of research, our study focuses on the case of entry mode choice, which refers to the operation form that multinational firms employ when entering foreign markets (Anderson and Gatignon, 1986; Zhao *et al.*, 2017). Foreign market entry offers an excellent setting in which to examine the influence of structural inertia, as multinational firms face environmental changes occurring in cross-national settings when they make entry mode choices. In our study, we specifically examine the following issue: the extent to which a multinational firm's own prior entry decisions influence its subsequent entry decisions, and we argue that multinational firms persist in the same type of entry mode due to decision-makers' unawareness of alternative actions or the constraints on their capacity to act (Hannan and Freeman, 1984).

We must also note that there exists a significant drawback in those existing studies applying structural inertia theory to the internationalization process of multinational firms. Few of them explicitly consider the boundary conditions defining under what conditions structural inertia is more likely to drive multinational firms to repeat their past activities. In fact, variance exists in the level of a firm's tendency to persist in continuing the same activities (Hannan and Freeman, 1984; Kelly and Amburgey, 1991). Therefore, we also explore the moderating role of the factors internal to multinational firms, specifically firm age, firm size and ownership identity, which may contribute to structural inertia (Hannan and Freeman, 1984) and thus may

enable multinational firms to repeat their past entry mode choices.

This study offers the following contributions to the extant literature. First, it extends the use of structural inertia theory from the domestic setting to the cross-national setting by focusing on foreign sequential entry mode choice. Second, it provides a new theoretical perspective to systematically study the determinants of entry mode choices of multinational firms by introducing structural inertia theory, which extends and complements past research based on other theoretical perspectives, such as transaction cost theory and the learning perspective. Third, we contextualize the relationship between a multinational firm's own prior entry choices and its subsequent entry decisions by empirically examining the moderating effects of firm age, firm size and ownership identity, which may increase a multinational firm's structural inertia.

Theoretical background

Determinants of entry mode choice

The choice of entry mode when multinational firms enter foreign markets has received significant research attention in IB studies (Morschett *et al.*, 2010; Villa *et al.*, 2015; Surdu and Mellahi, 2016) because of its performance implications for multinational firms (Zhao *et al.*, 2017). There are two streams of existing literature that try to explore the determinants of entry mode choices (Chang and Rosenzweig, 2001). One large stream of research characterizes the choice of entry mode as a static decision process, implicitly assuming that a particular entry mode choice of a

multinational firm is independent of its past entry mode choices (Kogut and Singh, 1988; Tihanyi *et al.*, 2005; Lo *et al.*, 2016). This stream of research is frequently based on transaction cost theory and shows that external environmental factors (Morschett *et al.*, 2010), such as cultural distance (Kogut and Singh, 1988), uncertainty of the host country (Tseng and Lee, 2010), and market attractiveness (Brouthers, 2013), exert a strong influence on entry mode choice. This is because foreign direct investment is a process that offers specific opportunities yet is fraught with risk (Chang and Rosenzweig, 2001). Cultural distance and uncertainty of the host country increase the risk level faced by investing firms (Tihanyi *et al.*, 2005; López-Duarte and Vidal-Suárez, 2010), while market attractiveness provides the investing firms with great potential for long-term profit (Chang and Rosenzweig, 2001). As such, in order to reduce the risks and secure opportunities when entering foreign markets, investing firms must choose an appropriate entry mode. For example, Barkema *et al.* (2015) find that multinational firms prefer the joint venture entry mode in order to secure a partner's cultural knowledge and capabilities as cultural distance increases. Brouthers (2013) argues that multinational firms are expected to use the entry mode of a wholly owned subsidiary in host countries characterized by high market attractiveness because firms can obtain economies of scale.

However, foreign entry mode choices are not discrete and might be understood as part of a series of choices that determine the subsequent entry mode choice (Chang and Rosenzweig, 2001). Therefore, the other stream of research assumes entry mode choices to be interdependent decisions (Padmanabhan and Cho, 1999; Chan *et al.*,

2006; Swoboda *et al.*, 2015), especially those decisions of repeated past entry modes. Padmanabhan and Cho (1999) pioneered the notion of repeated past entry mode choices modelled on the learning perspective. This assumes that multinational firms obtain knowledge of how to engage in a specific entry mode through cumulative entry experience and thus reduce risk by using the same entry mode (Johanson and Vahlne, 1977; Chang and Rosenzweig, 2001). In addition, based on the learning perspective, Swoboda *et al.* (2015) particularly emphasize the contextual conditions of the relationship between prior specific entry decisions and a firm's propensity to use the same entry mode in subsequent entries. Their study provides evidence that this relationship is diminished when the political distance between the home and host countries increases, while international experience and internationalization speed reinforce the reuse of the same mode choice. However, there exist limitations in applying a learning perspective to examine repeated entry mode choices. As Padmanabhan and Cho (1999) note, researchers should exercise caution in interpreting the effect of a prior entry mode of a given type that has been frequently used in the past on subsequent mode choices. This is because the continuous use of a similar entry mode may be the result of structural inertia against change, rather than learning from prior experience. Therefore, it is necessary to incorporate a structural inertia perspective to analyse the phenomenon of a multinational firm's repeated past entry mode decisions.

Structural inertia theory

Structural inertia can be defined as the tendency of firms to resist change in order

to maintain their current way of doing things (Hannan and Freeman, 1984; Schwarz, 2012). It is not claimed that firms never change in the face of environmental changes; rather, it is argued that firms are hard-pressed to implement radical change (Hannan and Freeman, 1984). Structural inertia encompasses financial investments and organizational commitments to the established courses of action (Shimizu and Hitt, 2005). The existing literature generally suggests that structural inertia is driven by two forces. The first is habituation, which refers to processes in which organizational decision-makers may repeat their decisions without conscious awareness (Oliver, 1996). The reason behind habituation is that repeated actions developed over the course of organizational history can become routines nested within the organization (Gilbert, 2005; Yi *et al.*, 2016). This reasoning is consistent with the view of institutional theory that as the frequency of use of a particular action grows, it becomes a taken-for-granted pattern (Meyer and Rowan, 1977; Zucker, 1977). The second source is decision-makers' internal cognitive pressures to change (Berger and Luckmann, 1967). Decision-makers will consider the expectations of stakeholders in the organization, such as organizational members, customers and investors (Sachs *et al.*, 2002). These stakeholders value organizational consistency, as they seek to maintain the present status that protects their interests (Kelly and Amburgey, 1991). Under the circumstances, decision-makers are subject to internal cognitive pressures if they deviate from existing routines (Berger and Luckmann, 1967). The sources of structural inertia limit organizations' use of alternatives in future decisions. In addition, Hannan and Freeman (1984) note that the strength of structural inertia varies

with organizational age, size and structural complexity.

There have been previous attempts to introduce the theoretical perspective of structural inertia to international business studies. For example, Guillén (2002) explores the reasons triggering the foreign expansion of multinational firms from a structural inertia perspective. This provides evidence that firm age reduces a multinational firm's rate of entry into a foreign country because older firms find it more difficult than younger firms to shift their well-established operations abroad. Shimizu and Hitt (2005) examine the effect of structural inertia in the context of the divestitures of formerly acquired units. The results show that older or larger firms are less likely to divest an acquired unit when it performs poorly. Yuan and Pangarkar (2010) examine the determinants of foreign location choices. They find that Chinese multinationals have a tendency to repeat their foreign location choices. Although these studies demonstrate that the strategic choices of multinational firms are indeed influenced by structural inertia, few of them explicitly consider the boundary conditions defining under what conditions structural inertia is more likely to drive multinational firms to repeat their past activities. Moreover, none of them apply the structural inertia perspective in the case of entry mode choice, which is of strategic importance for multinational firms. Similarly, Surdu and Mellahi (2016) recently observe that while prior studies draw on a number of theoretical perspectives or combine different theoretical perspectives to study entry mode choices by multinational firms, these studies generally neglect the structural inertia perspective. Therefore, our study introduces the theoretical perspective of structural inertia to

study the foreign sequential entry mode choices of multinational firms, and empirically examines the moderating effects of firm age, firm size and ownership identity, which may increase a multinational firm's structural inertia. We argue that similar to other activities, multinational firms tend to repeat their past entry mode choices due to the effect of structural inertia. Moreover, such an inertia effect is enhanced as the multinational firm's age, size and structural complexity (for which ownership identity serves as a proxy in our study) grow.

Hypothesis development

Past entry decisions and subsequent entry mode choice

Like many other strategic decisions (Amburgey and Miner, 2010), entry mode choice is not an independent and discrete decision for multinational firms (Padmanabhan and Cho, 1999; Chang and Rosenzweig, 2001; Swoboda *et al.*, 2015). Considering the interdependent nature of entry mode choice, prior studies suggest that past entry decisions may have a significant influence on subsequent entry choices (Anderson and Gatignon, 1986). In particular, multinational firms tend to repeat their past entry mode choices over time (Swoboda *et al.*, 2015). For example, Chang and Rosenzweig (2001) show that path dependency exists in multinational firms' entry mode choices. They argue that multinational firms may show path-dependent behaviour because these firms try to consciously and deliberately use the knowledge learned from their prior experience in similar choices and thus reduce cost and risk (Chang and Rosenzweig, 2001). However, it is important to note that multinational

firms may also repeat their past entry mode choices without conscious awareness (Padmanabhan and Cho, 1999). Therefore, we draw on structural inertia theory and argue that multinational firms persist in the same type of entry mode due to decision makers' unawareness of alternative actions or of the constraints on their capacity to act (Hannan and Freeman, 1984).

First, as the frequency of using a particular entry mode choice increases, this choice may become a habitualized behaviour pattern (Oliver, 1996), and multinational firms will develop competencies and routines that reinforce their reuse of the same entry mode (Yi *et al.*, 2016). Successful execution of a particular entry mode choice requires personnel commitments and an institutional arrangement within a multinational firm (Chang and Singh, 2015). Once organizational personnel are trained many times in one mode of entry, they believe that the current way of doing things is appropriate (Chan *et al.*, 2006). Information about challenging existing approaches would be screened out (Davis *et al.*, 2000). Employees who challenge the established wisdom may be isolated, and new employees who support ongoing activities are recruited (Chan *et al.*, 2006). In addition, the institutional arrangement of procedures and management controls supporting the entry mode of a given type that has been frequently used in the past can create bureaucracy and become organizational routines, which would be rather difficult to change (Shimizu and Hitt, 2005). As a result, a firm undertakes particular activities, such as specific entry mode choices, only because it knows how to do them (Amburgey and Miner, 2010). Under such circumstances, decision-makers of multinational firms may replicate the same

entry mode choice without conscious awareness.

Second, decision-makers are subject to internal cognitive pressures if they change the taken-for-granted mode of entry that has been enacted many times in the past (Berger and Luckmann, 1967; Swoboda *et al.*, 2015). Organizational stakeholders such as employees, investors and clients encourage the organization to account rationally for and perform reliably in its activities in order to maintain the present status and protect their interests (Hannan and Freeman, 1984). Thus, these stakeholders require the decision-makers to make consistent decisions (Kelly and Amburgey, 1991). As repeating past activities can offer the advantage of consistency and stability, organizational stakeholders may resist change, especially when an organization undertakes risky activities that may threaten their present interests (Hannan and Freeman, 1984). The decision to enter a foreign country is an activity that contains unusual risk and uncertainty (Chu and Anderson, 1992; Ripollés *et al.*, 2012). If decision-makers deviate from the established mode choice, they may be subject to resistance from organizational stakeholders. Under the circumstances, decision-makers of multinational firms may face internal cognitive pressures and are more likely to adhere to the accepted form of entry mode choice.

In short, both sources of structural inertia, habituation and decision-makers' internal cognitive pressures to change, would lead decision-makers to adopt the same entry mode choice and limit their search for an alternative mode of entry in sequential foreign direct investment. Thus, we make the following hypothesis:

Hypothesis 1: Multinational firms have structural inertia in their entry mode choices

- the greater the number of prior entry mode choices of a given type, the higher the likelihood that they will adopt the same mode in the subsequent entry.

Moderating effect of firm age

Firm age is an important factor contributing to structural inertia (Guillén, 2002; Li and Tang, 2010). Prior research has suggested that the extent to which a firm will deviate from the existing routines depends on its age (Hannan, 1998; Desai, 2008). As firms age, routines and internal arrangements within firms become fairly established, and thus, it is less likely for older firms to engage in adaptation and change (Guillén, 2002). In the context of entry mode choice, we argue that firm age reinforces the repeated use of the same entry mode in subsequent entry decisions by multinational firms.

First, as a multinational firm repeatedly undertakes a given type of entry mode, its internal organizational arrangement of procedures and management controls supporting the action may be highly routinized (Jiang *et al.*, 2011). Older multinational firms are particularly susceptible to embedded routines (Kelly and Amburgey, 1991) and commit more to these established courses than do younger multinational firms (Xie, 2014). Therefore, it is more difficult for older multinational firms to change an entry mode that has been used frequently in the past when undertaking sequential foreign direct investment. Under the circumstances, decision-makers of older multinational firms are more likely to be highly embedded in routinized approaches and to reproduce the same entry mode choice simply out of habit.

Second, the decision-makers of older multinational firms are likely to have more cognitive pressures to change their routinized entry mode. On the one hand, every decision of a firm involves various interest groups. If the decision-makers change the well-established operations, the interests of the existing interest groups may be harmed (Kelly and Amburgey, 1991). In the context of entry mode choice, when the decision-makers shift the entry mode from a joint venture to a wholly owned mode, the interests of relevant stakeholders related to the joint venture mode may be threatened. On the other hand, the relevant stakeholders have acquired specific skills after repeatedly engaging in a given type of entry mode. Such skills may have no value in conducting other types of entry mode choices (Hannan and Freeman, 1984). For the above reasons, these stakeholders may be resistant to making changes. It is important to note that the resistance will be stronger in older multinational firms. This is because in older multinational firms, patterns of relationships with relevant stakeholders are more stable (Guillén, 2002). The stakeholders in older multinational firms not only seek to maintain the present status that protects their interests but also worry that changes will disrupt the firm's stability and increase the probability of failure (Kelly and Amburgey, 1991). Under such circumstances, the decision-makers of older multinational firms may be subject to more cognitive pressures if they try to adopt a new type of entry mode in sequential foreign direct investment.

Third, older multinational firms have greater learning disadvantages, which lead these firms to depend more on their prior entry mode choices that have been frequently used in the past and seldom actively search for alternatives in the future.

Prior research has established that firm age affects a firm's motivation and ability to learn. Older multinational firms have less motivation to absorb new information and learn new knowledge because they are constrained by their routines (Autio *et al.*, 2000). In addition, older multinational firms have more cognitive constraints, which limits their ability to learn (Xie, 2017). Because of these learning disadvantages, older multinational firms will rely more on their past entry mode choices when selecting a subsequent entry mode. However, younger multinational firms are more likely to adjust their entry mode contingent upon the changing levels of uncertainty surrounding foreign expansion because they have stronger motivation to learn and fewer constraints on their ability to learn.

In short, firm age reinforces firms' behavioural habitualization and increases decision-makers' internal cognitive pressures to change. The older the multinational firm, the more likely it is to repeat entry mode choices that have been frequently adopted in the past. Thus, we make the following hypothesis:

Hypothesis 2: Older multinational firms have stronger structural inertia in repeating past entry mode choices than do younger multinational firms.

Moderating effect of firm size

Like firm age, firm size is another arguably contributing factor to structural inertia (Kelly and Amburgey, 1991; Li and Tang, 2010). As firms grow, their structures become more bureaucratic, and decision-makers of larger firms must reconcile a wider array of special interests of stakeholders, thus increasing the

difficulties in undertaking changes (Haveman, 1993). Therefore, prior studies suggest that larger firms tend to resist change (Shimizu and Hitt, 2005). In the context of entry mode choice, we expect that larger multinational firms are more likely to replicate their past entry mode choices in subsequent entries into foreign markets.

First, larger multinational firms are more bureaucratic than small multinational firms, and more bureaucratic firms are more likely to maintain their current way of doing things (Haveman, 1993). When a larger multinational firm with a bureaucratic structure undertakes a specific type of entry mode over time, it applies inflexible and impersonal rules to create standard operating procedures and formalize the entry mode choice (Haveman, 1993). Thus, the choice is generally very stabilized and may become a habitualized behaviour pattern (Oliver, 1996). As a result, this larger multinational firm is less likely to change the habitualized entry mode in the sequential foreign direct investment.

Second, larger multinational firms find it more difficult to change their routinized entry mode choices. Larger size represents a greater diversity of interest groups within the multinational firm. Change in entry mode choice may increase the likelihood of conflict among interest groups (Hannan and Freeman, 1984). This is because each group has its self-interests and the change may harm the interests of some of the existing interest groups (Kelly and Amburgey, 1991). Therefore, consensus regarding an appropriate change is more difficult to achieve. In addition, larger multinational firms must make more of an effort to coordinate and control the actions of organizational members. When coordination and control become difficult,

internal information constraints increase (Haveman, 1993). Thus, larger multinational firms may not readily change an entry mode that has been frequently used in the past. For the above reasons, the decision-makers of larger multinational firms are likely to experience more cognitive pressures to change their routinized entry mode choices. Consequently, decision-makers in larger multinational firms tend to maintain the status quo.

In short, as firm size increases, the behaviour of multinational firms may become more rigid and inflexible. When larger multinational firms engage in selecting an entry mode, they are more likely to repeat the same entry mode choice. Thus, we make the following hypothesis:

Hypothesis 3: Larger multinational firms have stronger structural inertia in entry mode choices than do smaller multinational firms.

Moderating effect of ownership identity

Prior research has recognized that corporate governance structures may vary according to ownership identity (Cuervo-Cazurra *et al.*, 2014; Peng *et al.*, 2016). The corporate governance structure of a state-owned firm is more complex than that of a private firm because government involvement plays a role in the management of state-owned firms (Wang *et al.*, 2012). State-owned firms are required to achieve government goals when pursuing their business objectives, and their strategic changes often require governmental approval (Cui and Jiang, 2012). Moreover, senior executives of a state-owned firm are generally appointed by the government, which constrains their managerial discretion (He *et al.*, 2016). This complex corporate

governance structure of state-owned firms increases their difficulties in undertaking strategic changes and encourages them to maintain the status quo (Tan and Tan, 2005). Therefore, in the context of entry mode choice, we expect that state-owned multinational firms tend to persist in using the same entry mode in their sequential foreign direct investment.

First, state ownership creates the political linkage between state-owned multinational firms and their home-country government (Cui and Jiang, 2012). This linkage gives state-owned multinational firms direct and indirect privileged access to government resources (Pan *et al.*, 2014). With government support, state-owned multinational firms generally experience less competition and performance pressure. Thus, decision-makers in state-owned multinational firms are typically risk-averse and lack the incentive to make strategic changes (He *et al.*, 2016). In addition, government support buffers state-owned multinational firms from uncertainties when they conduct foreign direct investment (Lu *et al.*, 2014). Therefore, state-owned multinational firms are less likely to adjust their entry mode to cope with uncertainties surrounding foreign expansion and tend to adhere to the habitualized form of entry mode.

Second, state-owned multinational firms are created as an instrument for achieving governmental goals, such as resource acquisition in the global market (He *et al.*, 2016). The government requires state-owned multinational firms to serve political priorities. These government requirements will constrain the activities of state-owned multinational firms (Tan and Tan, 2005). For example, in order to prevent

capital flight, safeguard state assets and take advantage of joint ventures (JV), the Chinese government encourages state-owned multinational firms to adopt JV when they invest abroad (Cui and Jiang, 2012). Moreover, it is also relatively easier for them to obtain governmental approval if their outward investment projects are co-funded by foreign partners. Accordingly, state-owned multinational firms tend to follow the same mode of entry that has been historically approved by the government (Cui and Jiang, 2012). In contrast, decision-makers in state-owned multinational firms are subject to strong cognitive pressures if they do not follow the requirements based on the government's objectives. This is because they may not be promoted and may even be fired (Guo *et al.*, 2017), even if they achieve the desired business objectives (He *et al.*, 2016). Therefore, decision-makers in state-owned multinational firms are generally not proactive in making strategic changes for high performance and have a tendency to maintain the status quo.

In short, state-owned multinational firms have a higher level of structural inertia and thus resist making changes. In the context of entry mode choice, they have a stronger tendency to repeat the same entry mode, especially one that has been encouraged by the government. Thus, we make the following hypothesis:

Hypothesis 4: State-owned multinational firms have stronger structural inertia in entry mode choices than do private multinational firms.

Methods

Sample and data source

We use a sample of Chinese multinational firms listed on the Shanghai or Shenzhen Stock Exchange. Data on publicly listed firms in China are relatively more reliable because these Chinese firms must disclose their financial information (e.g., information on foreign subsidiaries) in their annual reports, and these reports must meet the requirements set by the China Securities and Regulatory Commission (CSRC) (Guo *et al.*, 2017). The time window of our sample is set from 2001 to 2012. This is because Chinese firms began to invest abroad from the early 2000s (Xia *et al.*, 2014), and Chinese outward foreign direct investment grew rapidly during the 2001-2012 period. This rapid growth produced a sample large enough for us to examine our theoretical predictions.

Our empirical analysis is based on data collected from two sources: the Directory of Chinese Outward Foreign Direct Investment (OFDI) firms compiled by the Ministry of Commerce of the People's Republic of China (Shi *et al.*, 2017), and the annual reports of those Chinese firms listed on the Shanghai or Shenzhen Stock Exchange. The first data source contains the basic information of each OFDI project (e.g., investment location, approval date, industry and business scope) (Lu *et al.*, 2017). The second data source records the type of entry mode of each OFDI project. After merging these two data sources, we obtain the original dataset. Next, we exclude (1) foreign entry incidents in terms of representative offices established in host countries, because these incidents do not require much resource commitment; (2) investment projects in the tax havens of the Cayman Islands, British Virgin Islands, Hong Kong and Macao, because these projects for tax purposes may create bias in the

data of Chinese OFDI (Guo *et al.*, 2017); and (3) the sample firms that do not adopt subsequent entries after the initial entry. After these procedures, we obtain a final sample of 121 Chinese multinational firms, leading to 564 observations during the 2001-2012 period.

Measurement

Dependent variable. When undertaking foreign direct investment, multinational firms face a basic decision: whether to own part or all of the investment (Anderson and Gatignon, 1986). Therefore, consistent with existing research, our study focuses on the entry mode choice between joint ventures (JV) and wholly owned subsidiaries (WOS) (Yiu and Makino, 2002; Chung *et al.*, 2016; Li, Guo, *et al.*, 2017). JV is achieved by pooling the assets of two or more firms in a common and separate firm, while WOS denotes purchasing the controlling interest of a local firm or setting up a new plant in a host country (Chang and Rosenzweig, 2001). We use a dummy variable to operationalize *subsequent entry mode choice*. It takes the value of 1 if the OFDI project is a joint venture (JV), and 0 if it is a wholly owned subsidiary (WOS). Consistent with prior studies (Anderson and Gatignon, 1986; Padmanabhan and Cho, 1999; Yiu and Makino, 2002; Lu *et al.*, 2017), we use 95% equity ownership owned by the Chinese parent firm as the cutoff point to categorize the two mode types: joint venture (10%-94% ownership) or wholly owned subsidiary (95%-100% ownership).

Independent and moderating variables. As the frequency of a particular practice increases, it becomes difficult to change (Oliver, 1996). Thus, the intensity of structural inertia depends on the number of the same practices adopted in the past.

Similar to previous studies (Amburgey and Miner, 2010; Yuan and Pangarkar, 2010), the independent variable of *prior JV mode* is measured as the cumulative counts of joint ventures established by the same parent firm at the time of entry. The raw data of dependent variable and independent variables are manually collected from the annual reports of the focal firm.

As summarized in structural inertia theory, the strength of structural inertia varies with an organization's life cycle, size and structural complexity (Hannan and Freeman, 1984). Thus, we empirically examine the moderating role of firm age, firm size and ownership identity, which serves as a proxy for structural complexity, in the adoption of repeated past entry mode choices by multinational firms. *Firm age* is measured by the number of years since the focal firm was founded (Xie, 2017). *Firm size* is measured by the natural logarithm of the number of employees in the focal firm (Xie, 2014). A dummy variable is used to measure *ownership identity*. A state-owned multinational firm is coded 1 if the governments or their agencies own at least 50 percent equity shares in the focal firm and 0 otherwise (Li, Xia, *et al.*, 2017). Information on the three moderating variables is obtained from the China Stock Market and Accounting Research (CSMAR) database, which has been widely used in prior studies (Xia *et al.*, 2014).

Control variables. We control for factors that may potentially affect the entry mode choices of multinational firms. Both *general international experience* and *host-specific experience* are controlled for because prior research has confirmed that they play different roles in multinational firms' decision-making of entry mode

choices (Padmanabhan and Cho, 1999; Li and Meyer, 2009). Multinational firms obtain general international experience through global business operations without reference to specific host countries. This enhances firms' competence-building effect and reduces the need for a joint venture partner. However, host-specific experience is gained through repeated operations in the same host country. It may support the partner-selection effect, which enhances firms' ability to select a partner and thus facilitates the formation of a joint venture (Li and Meyer, 2009). General international experience is measured by the cumulative counts of investment projects prior to the focal entry, while host-specific experience is measured by the total counts of investment projects in the same host country prior to the focal entry. The raw data of these two types of experience are manually collected from the Directory of Chinese Outward Foreign Direct Investment (OFDI) firms.

Cultural distance has been an important concern in studies of entry mode choice (Kogut and Singh, 1988; López-Duarte and Vidal-Suárez, 2010). This refers to the underlying difference in cultural characteristics (e.g., social norms, values and beliefs) between home and host country (Kogut and Singh, 1988). Prior studies consider cultural distance as a source of uncertainty (López-Duarte and Vidal-Suárez, 2010). However, its impacts on firms' strategic choices are unlikely to be fixed because firms can accumulate knowledge to alleviate the negative effect of cultural distance over time by prior entries (Cho and Padmanabhan, 2005). Therefore, we control for the cultural distance difference between focal entry and prior entries. We calculate its value by using the following formula:

$$\text{Cultural distance difference} = \text{CD}_{\text{focal}} - \left(\sum_{k=1}^n \text{CD}_k \right) / n$$

In this formula, CD_{focal} is the cultural distance between China and the host country of the focal entry. CD_k stands for the cultural distance between China and the host country for the k th entry, and n is the total number of projects prior to the focal investment. Similar to prior studies, cultural distance (CD) is calculated using metrics developed by the Kogut and Singh (1988) index.

Prior research has suggested that foreign firms are subject to more uncertainties in host countries where the level of *institutional development* is low (Chan *et al.*, 2008). Such uncertainties increase the likelihood of a multinational firm adopting a joint venture over a wholly owned subsidiary (Demirbag *et al.*, 2010). Therefore, institutional development of the host country is included in our analysis. We calculate the value of this variable based on six governance indicators (rule of law, political stability and absence of violence, voice and accountability, government effectiveness, regulatory quality and control of corruption) compiled by the World Bank (Cuervo-Cazurra and Genc, 2008). A principal component analysis with a varimax rotation is used for all 6 indicators. The indicators load significantly on one factor, which refers to institutional development of a host country in our study.

We also include *openness to FDI* of a host country as a control variable in our study (Buckley *et al.*, 2007). The host-country government may provide investing firms with more support when it is more open to FDI. The support of a host-country government can reduce investing firms' need for a joint venture partner to alleviate the liability of foreignness. Following Buckley *et al.* (2007), openness to FDI of a

host country is measured as the ratio of inward FDI stock to a country's GDP. The data of this variable are obtained from the United Nations Conference on Trade and Development (UNCTAD) FDI database.

We control for the effect of *regional market size*, which is measured as provincial GDP per capital. As regional market size increases, so do business opportunities. Under these circumstances, Chinese firms can obtain resources in the domestic market, which enable them to have a higher risk tolerance and to reduce the need for a partner to share risks when they invest abroad. Data on regional market size are obtained from CSMAR.

Industry dummy variables are used to control for the influence of industry dynamics on multinational firms' entry mode choices. Industry is defined by China's two-digit SIC codes. We set 6 industry dummy variables because our sample firms are distributed among seven industries.

Year dummy variables are also included to capture the potentially omitted variables that evolve over time. We set 11-year dummy variables because the time window of our study is from 2001 to 2012.

Statistical approach

As the dependent variable, subsequent entry mode choice, is a binominal variable, we adopt logistic regression to examine the likelihood that a multinational firm will choose the entry mode of joint venture (Yiu and Makino, 2002). Logistic regression has been widely used in previous empirical studies of entry mode choice (Yiu and Makino, 2002; Swoboda *et al.*, 2015; Lu *et al.*, 2017). The logit model is

based on the cumulative probability function and can be represented as follows:

$$P_i = e^{-\beta X_i} / (1 + e^{-\beta X_i})$$

where P_i is the probability that a joint venture mode will be chosen under the conditions specified by the independent and control variables.

Results

Table 1 presents descriptive statistics and correlation coefficients for the variables employed in our statistical models. We also check the variance inflation factors (VIFs). The highest value of VIFs is 3.15, which is below the acceptable value of 10. This indicates that there are no serious problems of multicollinearity in our estimation. In addition, we mean-centre the continuous independent and moderating variables to further minimize potential multicollinearity (Dawson, 2014). We lag all predictor variables and controls by one year to reduce possible reverse causality.

Insert Table 1 about here

Table 2 presents the results of the logistic regression models. Model 1 only includes the control variables. Model 2 tests the prediction of Hypothesis 1 that the prior entry mode of a given type that has been used frequently in the past influences a multinational firm's subsequent mode choices. In our research context, we argue that as the frequency of using JV entry mode increases, the likelihood that a multinational firm will adopt the same mode in the subsequent entry increases. The coefficient of prior JV mode is positive and statistically significant ($b=0.111$, $p<0.1$), which indicates that Hypothesis 1 is supported.

Insert Table 2 about here

Model 3 tests Hypothesis 2, which suggests that firm age strengthens the structural inertia of multinational firms in repeating their past entry mode choices. The interaction term between prior JV mode and firm age is positive and statistically significant ($b=0.026$, $p<0.1$). Therefore, Hypothesis 2 is supported. We plot the significant interaction effect in Figure 1 based on the results of the full model (Model 6 in Table 2), which shows that prior JV mode has a positive relationship with the likelihood of adopting JV mode in the subsequent entry for older multinational firms, while this positive relationship disappears for younger multinational firms.

Insert Figure 1 about here

Model 4 tests Hypothesis 3, which proposes that larger multinational firms have stronger structural inertia in entry mode choices than do smaller multinational firms. The interaction term between prior JV mode and firm size is positive and statistically significant ($b=0.075$, $p<0.1$). Therefore, Hypothesis 3 is supported. We plot the significant interaction effect in Figure 2 based on the results of the full model (Model 6 in Table 2), which shows that prior JV mode has a positive relationship with the likelihood of adopting JV mode in the subsequent entry for larger multinational firms, while this positive relationship disappears for smaller multinational firms.

Insert Figure 2 about here

Model 5 tests Hypothesis 4, which argues that state-owned multinational firms have stronger structural inertia in entry mode choices than do private multinational

firms. The interaction term between prior JV mode and ownership identity is positive and statistically significant ($b=0.910$, $p<0.01$). Therefore, Hypothesis 4 is supported. We plot the significant interaction effect in Figure 3 based on the results of the full model (Model 6 in Table 2), which shows that prior JV mode has a positive relationship with the likelihood of adopting JV mode in the subsequent entry for state-owned multinational firms, while this positive relationship disappears for private multinational firms.

Insert Figure 3 about here

To assess the sensitivity of our findings, we also use 90% (Pan *et al.*, 2014) and 80% (Yiu and Makino, 2002) equity ownership as the cutoff points to differentiate between a wholly owned subsidiary (WOS) and a joint venture (JV), respectively. The results are as robust as those in the original tests. The robust results are not presented because of space constraints but are available to readers upon request.

Discussion

This study addresses the effect of a multinational firm's prior entry decisions on its subsequent entry decisions with a special emphasis on the boundary conditions of this relationship by empirically examining the moderating role of firm age, firm size and ownership identity. The results indicate the structural inertia in multinational firms' entry mode choices, and such an inertia effect becomes stronger for older multinational firms, larger multinational firms and state-owned multinational firms. These observations provide the following theoretical contributions and practical

implications.

Theoretical contributions

First, our study extends the use of structural inertia theory by studying the foreign sequential entry mode choices. We change the focus of structural inertia theory from a domestic setting to a cross-national setting. The main argument, which was originally posed in Hannan and Freeman's (1984) formulation of structural inertia theory, is that organizations tend to be inert relative to environmental changes occurring in a domestic setting. The results of our study show that this argument still holds in a cross-national setting. More specifically, multinational firms tend to adopt the same entry mode choice when they face environmental changes deriving from the transition from home country to another country. Therefore, our findings suggest that the applicability of structural inertia theory may not be related to the patterns of environmental changes.

Second, our study provides a new theoretical perspective to systematically study the determinants of entry mode choices of multinational firms by introducing structural inertia theory. The determinants of entry mode choices of multinational firms have been extensively studied from multiple theoretical perspectives. Surdu and Mellahi (2016) review the literature on the theoretical foundations of entry mode choices and reveal that the extant studies of entry mode choices mainly draw on organizational economics theories, resource-based theories, institutional theories, the Uppsala theory of internationalization, network theory and real options theory. Although numerous studies have focused on entry mode choices, studies on the same

topic from a structural inertia theory perspective have lagged behind considerably (Padmanabhan and Cho, 1999). One possible explanation for this is that in most of the theoretical perspectives, efficiency arguments are used. Efficiency drives multinational firms to choose an entry mode according to the environmental changes they face. However, structural inertia theory takes a different route. It rests on the assumption that organizations might value reliability and accountability more than efficiency when the future is uncertain. Our findings confirm the predictions of structural inertia theory that multinational firms have a tendency to adopt the same mode in the subsequent entry as the number of prior entry mode choices of a given type (JV in our study) increases due to structural inertia. Therefore, our study can add explanatory power to existing theoretical explanations of entry mode choices.

Third, we contextualize the relationship between a multinational firm's prior entry decisions and its subsequent entry decisions by empirically examining the moderating effects of firm age, firm size and ownership identity that increase a multinational firm's structural inertia. Our findings show that older multinational firms, larger multinational firms and state-owned multinational firms exhibit stronger structural inertia in entry mode choices. Therefore, our study can help answer the question of why firms exhibit different levels of structural inertia when they face the same environmental changes.

Fourth, our study complements and advances the extant research on repeated entry mode choices based largely on the learning perspective. Prior research has emphasized the learning effect of these repeated activities. However, the learning

perspective may only draw half a picture of the reasons behind the repeated entry mode choices of multinational firms because the effect of structural inertia will occur when the frequency of using a particular entry mode choice increases. As Padmanabhan and Cho (1999) note, continual use of a similar entry mode may be the result of structural inertia against change, rather than learning from prior experience. Therefore, our consideration of structural inertia in multinational firms' sequential entry mode choice can complement the explanations provided by the learning perspective for repeated entry mode choices.

Practical implications

The insights generated from our study also have the following managerial implications. First, multinational firms can learn from prior experience in similar entry mode choices and thereby increase efficiency and reduce uncertainty (Padmanabhan and Cho, 1999). However, our study indicates that multinational firms may also exhibit structural inertia as the frequency of using a particular entry mode choice increases. Structural inertia can be a barrier to strategic flexibility. When relying too much on a routinized entry mode, multinational firms may face the danger of missing opportunities, especially when technological change and globalization increase. Therefore, decision-makers in multinational firms should be cautious about the effect of structural inertia when choosing an entry mode and adjust that entry mode depending on the changing levels of uncertainty surrounding foreign expansion.

Second, our study also indicates that structural inertia varies with firm age, firm size and ownership identity. Older multinational firms, larger multinational firms and

state-owned multinational firms exhibit stronger structural inertia in selecting an entry mode. Decision-makers in these firms may face stronger cognitive pressures to change the routinized entry mode. As a result, they should be endowed with more managerial discretion, which will relieve pressure and facilitate strategic changes.

Limitations and future research directions

Our study has the following limitations that can also be regarded as opportunities for future research directions. First, the main limitation of our study is that the measure of entry mode choice is restricted to joint ventures (JV) or wholly owned subsidiaries (WOS). Although this measure is consistent with prior studies that focus on entry mode choice, it also raises concerns about whether the results are generalizable to other entry mode choices (e.g., greenfield or acquisition). Thus, future research must examine the relationship identified in our study for different types of entry mode choices.

Second, our study does not consider the role of the managerial discretion of decision-makers in multinational firms when exploring the effect of structural inertia in entry mode choice. Although our study confirms the theoretical prediction of structural inertia that multinational firms tend to repeat their past entry mode in their subsequent entry into foreign markets, decisions by multinational firms are the outcome of the interplay between structural inertia and the managerial discretion of decision-makers. Therefore, it would be better for future studies on entry mode choice to incorporate managerial discretion into the theoretical framework of structural inertia.

Third, our research findings are based on a sample of Chinese listed firms. Although this dataset is suitable for testing the hypotheses of our study, it would be better for future studies to examine the same theoretical framework using sample firms from other countries. This would help establish the generalizability of our findings.

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Table 1. Descriptive statistics and correlation coefficients

Variables	1	2	3	4	5	6	7	8	9	10	11
1 Subsequent entry mode choice	1.000										
2 Prior JV mode	0.030	1.000									
3 Firm age	0.059	0.025	1.000								
4 Firm size (ln)	-0.172***	0.118***	0.069*	1.000							
5 Ownership identity	0.043	-0.109***	-0.187***	0.098**	1.000						
6 General international experience	-0.099**	0.664***	-0.076*	0.367***	-0.173***	1.000					
7 Host-specific experience	0.077*	0.460***	0.165***	-0.145***	-0.066	0.310***	1.000				
8 Cultural distance difference	-0.048	0.047	-0.157***	-0.123***	-0.146***	0.069*	-0.068	1.000			
9 Institutional development	-0.050	0.012	-0.006	-0.109***	-0.020	-0.018	0.233***	0.319***	1.000		
10 Openness to FDI	0.052	0.164***	0.063	-0.024	0.071*	0.066	0.280***	-0.142***	0.184***	1.000	
11 Regional market size	0.124***	0.068	0.180***	-0.252***	-0.082*	0.006	0.004	0.015	-0.022	-0.053	1.000
Mean	0.303	1.945	10.920	8.724	0.103	6.645	0.988	0.087	0.000	4.427	4.520
SD	0.460	2.456	4.284	1.394	0.304	7.430	2.418	1.519	2.283	6.814	0.254

*p<0.1, **p<0.05, ***p<0.01, N=564

Table 2. Results of logistic regression for subsequent entry mode choice (95% equity ownership as the cut-off point)

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
General international experience	-0.043** (0.018)	-0.048* (0.026)	-0.039 (0.028)	-0.071** (0.029)	-0.043 (0.026)	-0.049 (0.032)
Host-specific experience	0.074 (0.059)	0.016 (0.064)	-0.013 (0.069)	0.054 (0.067)	0.014 (0.065)	0.005 (0.073)
Cultural distance difference	0.021 (0.074)	-0.003 (0.076)	-0.015 (0.076)	0.011 (0.076)	-0.024 (0.077)	-0.036 (0.079)
Institutional development	-0.123** (0.052)	-0.115** (0.053)	-0.105* (0.054)	-0.125** (0.054)	-0.113** (0.054)	-0.106* (0.055)
Openness to FDI	0.011 (0.016)	0.009 (0.016)	0.009 (0.016)	0.010 (0.016)	0.009 (0.017)	0.011 (0.017)
Regional market size	1.953*** (0.587)	1.527** (0.613)	1.531** (0.611)	1.607*** (0.623)	1.647*** (0.627)	1.732*** (0.636)
Firm age		0.021 (0.028)	0.038 (0.030)	0.024 (0.028)	0.022 (0.029)	0.048 (0.031)
Firm size (ln)		-0.161 (0.098)	-0.162* (0.098)	-0.118 (0.101)	-0.171* (0.101)	-0.137 (0.106)
Ownership identity		0.479 (0.448)	0.343 (0.452)	0.497 (0.451)	1.339** (0.559)	1.240** (0.562)
Prior JV mode		0.111* (0.066)	0.051 (0.075)	0.151** (0.069)	0.093 (0.067)	0.042 (0.080)
Prior JV mode* Firm age			0.026* (0.014)			0.036** (0.015)
Prior JV mode* Firm size				0.075* (0.044)		0.066 (0.045)
Prior JV mode* Ownership identity					0.910*** (0.302)	1.002*** (0.308)
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-9.394*** (2.595)	-7.346*** (2.721)	-7.356*** (2.712)	-7.591*** (2.761)	-7.819*** (2.785)	-8.074*** (2.817)
Observations	564	564	564	564	564	564
Log likelihood	-320.62	-317.09	-315.35	-315.63	-311.84	-307.61
Likelihood ratio test	50.84***	57.91***	61.37***	60.82***	68.40***	76.86***
Pseudo R ²	0.074	0.084	0.089	0.088	0.099	0.111

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

Figure 1. The moderating role of firm age on the relationship between prior JV mode and subsequent entry mode choice

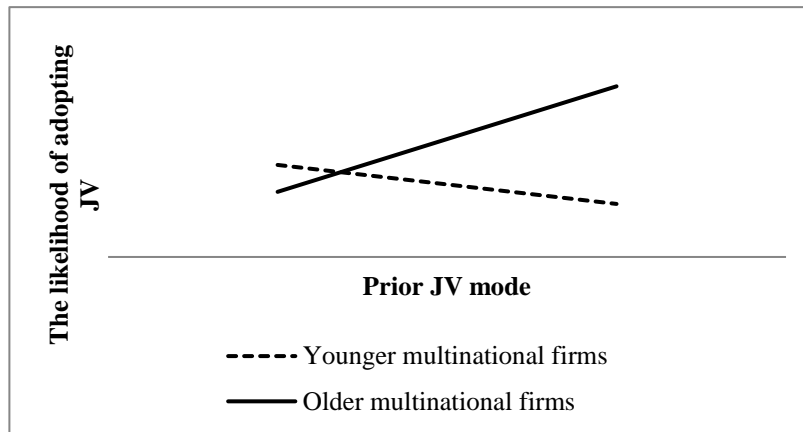


Figure 2. The moderating role of firm size on the relationship between prior JV mode and subsequent entry mode choice

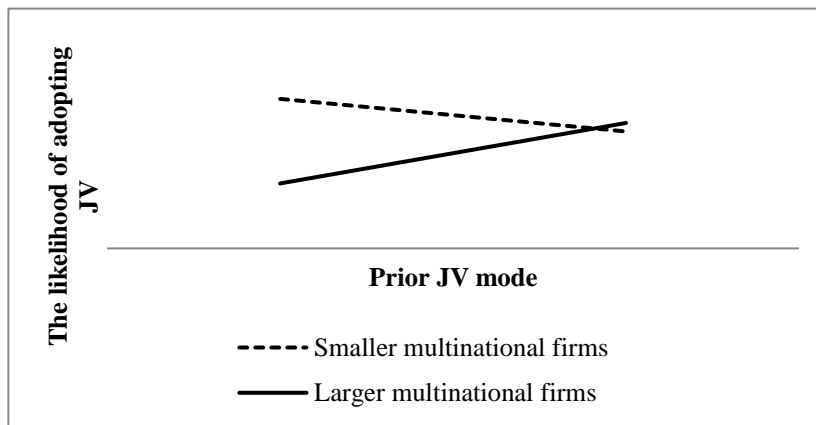


Figure 3. The moderating role of ownership identity on the relationship between prior JV mode and subsequent entry mode choice

