ISBN : 9780974211428

Top Management Team Composition And The Choice Of Foreign Market Location And Entry Mode

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Acknowledgements: We would like to thank Dr. Alan E. Ellstrand and Dr. Frances Fabian for their valuable feedback on our paper.

ISBN : 9780974211428

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ABSTRACT

Foreign direct investment location and entry mode choice are important strategic decisions. We complement prior research by using upper echelons theory to examine the role of top management team characteristics in shaping the choices of foreign investment location and entry mode. Specifically, we propose that average team age, organizational and team tenure, international experience, and heterogeneity influence (1) the choice of investment location in terms of the institutional distance between the home and host countries and (2) the decision to enter the market by establishing a greenfield start-up or by acquiring an existing local venture.

Keywords: upper echelons, top management team, FDI, location choice, entry mode choice, institutional distance, acquisition, greenfield start-up

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INTRODUCTION

Foreign direct investment (FDI) is gaining popularity as a way of internationalizing firms' operations. In 2011, the value of FDI reached a worldwide total of $1.5 trillion, exceeding pre-financial crisis levels and cross-border mergers and acquisitions (M&As) and greenfield start-ups constituted a major part of this total (UNCTAD, 2012). A firm's decision to invest abroad is highly complex, and requires the critical determination of both where to invest and how to enter the foreign market. These decisions are of strategic importance to the firm for they have long-term implications for the development and competitive position of its subsidiary. A large number of factors at different levels of analysis (country-, industry-, and firm-level) have been examined in relation to the choice of foreign direct investment location and entry mode (Agarwal & Ramaswami, 1992; Brouthers & Hennart, 2007; Kogut & Singh, 1988; Xu & Shenkar, 2002). While this research has extended our knowledge, there are still questions that remain unanswered. In this paper we contribute to the literature by examining the role of top management team (TMT) as the strategic decision-makers of the firm in the choice of foreign location and entry mode.

There is a long research tradition aimed at understanding how TMT characteristics affect firms' strategic orientation (Finkelstein & Hambrick, 1990; Michel & Hambrick, 1992; Wiersema & Bantel, 1992). However, understanding how TMT characteristics influence strategic decision-making in the international context remains an under-researched topic in the upper echelons literature (Herrmann & Datta, 2006). In this paper we address two research questions. First, *How is TMT composition related to the choice to invest into an institutionally close versus an institutionally distant country?* Institutional distance captures the differences in the environments of the host and the home country and allows us to explain firm's FDI location

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choice. The second research question we address is: *How is TMT composition related to the choice between an acquisition and a greenfield start-up as a form of entry into a foreign market?* By highlighting the role of TMTs characteristics, we hope to contribute to our knowledge of firms' foreign location and entry mode choice.

A large body of literature, influenced to a great extent by Hambrick and Mason's (1984) upper echelons perspective, has examined TMTs' influence on key organizational decisions and outcomes (e.g., Bantel & Jackson, 1989; Carpenter & Fredrickson, 2001; Finkelstein & Hambrick, 1990; Hambrick, Cho, & Chen, 1996). The central idea of this perspective is that executives' background, experiences, and values influence their strategic choice and ultimately, organizational outcomes. This line of research has largely utilized TMTs members' demographic characteristics as valid proxies of executives' cognitive base due to the inherent difficulty of obtaining psychometric data on top executives (Hambrick, 2007).

In the international context, TMTs composition has also been shown to influence firms' international involvement (Tihanyi, Ellstrand, Daily, & Dalton, 2000; Sambharya, 1996; Athanassiou & Nigh, 2000; 2002; Reuber & Fischer, 1997); however, no study, to the best of our knowledge, has addressed its influence on the location decision associated with foreign investment. Thus, we contribute to the FDI literature by examining the relationships between TMT characteristics and the choice of foreign market location in terms of institutional distance between the home and host country.

Furthermore, prior studies have largely ignored the role of strategic decision-makers in influencing entry mode choices (Brouthers & Hennart, 2007) with only a few notable exceptions (Herrmann & Datta, 2002; 2006; Nielsen & Nielsen, 2011). Moreover, these studies have focused on the distinction between entry modes in terms of the level of ownership control in the

ISBN : 9780974211428

venture (e.g., joint ventures (JVs) versus wholly-owned subsidiaries). We extend this line of research and contribute to the foreign market entry mode literature by investigating the effect of a broad range of TMT demographic characteristics on the choice of entry mode in terms of the decision to "make" or "buy" (i.e., the choice between greenfield start-up versus acquisition).

We examine the influence of five demographic characteristics on the choice of foreign market location and entry mode. Specifically, as depicted in Figure 1, we propose that average team age, organizational and team tenure, international experience, and heterogeneity influence the investment location decision in terms of the institutional distance between the home and host countries and the decision to enter the market by establishing a greenfield start-up or by acquiring an existing local venture.

We utilize Vermeulen and Barkema's view of acquisitions as a form of exploration and a "way for organizations to administer shocks to their systems and to counter the process of progressing simplicity (2001: 458)." On the other hand, greenfields allow for exploitation of existing knowledge resources and capabilities. They are seen as replications of the ways firms organize and manage their operations, and contribute to rigidity and inertia (Vermeulen & Barkema, 2001).

Insert Figure 1 about Here

The paper is organized as follows. In the following sections we review prior research on FDI location and entry mode choice, and TMT composition. Next, we examine the linkage between TMT characteristics and foreign location and entry mode decisions, and develop

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testable propositions. Lastly, we draw our conclusions and discuss our contributions to extant research.

THEORETICAL BACKGROUND

Foreign location choice

Even though locational advantages constitute an important part of Dunning's ownership-location-internalization (OLI) paradigm, researchers have not paid due attention to location choice in explaining patterns of FDI (Dunning, 1998). As a result, Dunning (1998) referred to location as 'the neglected factor' of his framework. While early attention focused on direct cost advantages in the location choice (Dunning, 1980), recent research has increasingly considered how the more indirect costs of functioning in foreign environments may be more critical (Zaheer, 1995).

Host country institutions are therefore an important factor to be considered when making FDI location decisions, for they may constitute a locational advantage (Bevan, Estrin, & Meyer, 2004) and thus, make the market attractive to foreign direct investors (Dunning, 1998). According to Scott (1995), the institutional environment within which a firm operates consists of three distinct pillars, namely, regulatory, normative, and cognitive. The regulatory pillar reflects the coercive power of governments exercised through rules, laws, and regulations. Norms are "the standards for values that exist within a group or category of people" (Hofstede, 1991: 8) and thus, the normative pillar represents the commonly accepted means through which individuals and firms can pursue their goals. Lastly, the cognitive pillar denotes the taken-for-granted values and beliefs of a society (Scott, 1995). Similarly, from an economics perspective, North (1990) defines institutions as "the humanly devised constraints that structure human interactions" (1990:3). According to him, they are "the rules of the game" and consist of "formal constraints

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(rules, laws, constitutions), informal constraints (norms of behavior, conventions, and self-imposed codes of conduct), and their enforcement characteristics" (North, 1994: 360). As such, institutions may facilitate transactions by reducing uncertainty and lowering transaction and information costs.

Institutional theory suggests that the institutional environment is an important determinant of firm structure and behavior (DiMaggio & Powell, 1983; Scott, 1995) because institutions exert conformity pressures on multinational enterprises (MNEs). By conforming to these pressures, according to institutional theory, an MNE enhances its legitimacy and gains access to resources it needs to survive (Pfeffer & Salancik, 1978). In particular, empirical evidence shows that institutional forces in home and host countries shape firm strategies such as foreign market entry (Delios & Henisz, 2000; Meyer, 2001; Yiu & Makino, 2002) and constitute important determinants of subsidiary performance (Makino, Isobe, & Chan, 2004).

Spar (2001) notes that for firms considering FDI in a particular host country, the incentives and restrictions created by institutions "shift the playing field, favoring some deals and opportunities while disadvantaging others. They force the investing firms to think strategically about how to avoid the limits imposed by domestic law as well as how to reap the benefits that the law and particular circumstances are capable of providing (2001: 214). Thus, researchers have generally agreed that institutions influence firms' strategic choices and have recently focused their attention on exploring *how* they matter (Peng, 2003).

Top managers are likely to have greater difficulty conforming to institutional pressures in unfamiliar environments, as they must pursue greater efforts to discover the foreign institutional rules. Herein, we explain firms' FDI location choice in terms of the differences in the environments between the host and the home countries as captured by institutional distance.

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Institutional distance is defined as "the difference or similarity between the regulatory, cognitive, and normative institutional environments of the home and the host countries of an MNE" (Kostova & Zaheer, 1999: 68). Larger institutional distance represents conflicting demands of the home and host countries' institutions on the firm (Xu & Shenkar, 2002) and hence, presents a challenge to the firm in transferring strategic routines to its foreign subsidiaries and in gaining legitimacy (Kostova 1999). Researchers refer to firm's unfamiliarity with the host country business environment as the "liability of foreignness" and suggest that it leads to competitive disadvantage and increases the costs of doing business in a foreign country (Zaheer, 1995; Kostova & Zaheer, 1999; Mezias, 2002). Institutional distance increases the costs associated with the liability of foreignness (Eden & Miller, 2004; Xu & Shenkar, 2002). Thus, firms tend to choose locations for their foreign operations in countries that are more proximate to their home country in order to avoid uncertainty and increase their prospects for success (Flores & Aguilera, 2007).

Foreign entry mode choice

The form of operations firms use to enter foreign markets is another critical decision firms need to make when expanding their operations abroad. The choice of entry mode is a widely researched topic within the field of international business (Brouthers & Hennart, 2007; Werner, 2002). The theories most commonly utilized to explain the choice of entry mode include transaction cost economics, the resource-based view, institutional theory, and Dunning's OLI paradigm (Brouthers & Hennart, 2007). However, as Brouthers and Hennart (2007) point out in their review of the literature, more attention needs to be paid to the role of strategic decision-makers in explaining the choice of entry mode. While prior work traditionally assumes that the entry mode decision is rational, research has shown that managerial decisions are not completely

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rational (Cyert & March, 1963; Hambrick & Mason, 1984; Hitt & Tyler, 2006). Thus, the role of strategic choice as exercised by TMT members in foreign entry mode decisions should not be ignored and has the potential to provide us with important new insights.

Herrmann and Datta (2002; 2006) examined the role of CEO characteristics in the choice of foreign entry mode but only recently, Nielsen and Nielsen (2011) linked TMTs, as opposed to the CEOs, to the choice of foreign entry mode. Thus, while a large number of factors at different levels of analysis (country, industry, and firm level) have been examined in relation to the choice of entry mode, limited attention has been paid to the role of TMTs in making this important strategic decision.

Researchers usually classify foreign market entry modes either in terms of the extent of ownership (e.g., JV versus wholly-owned subsidiary) or whether a new venture is built from scratch or an existing one is acquired (greenfield start-up versus acquisition). The approach we take in this paper to classify entry modes is different from that taken by other researchers who link CEO and TMT characteristics to this strategic decision. While other studies classify entry modes in terms of the level of ownership, control, and risk (Herrmann & Datta, 2002; 2006; Nielsen & Nielsen, 2011), we take a different perspective and focus on the “make” or “buy” decision (i.e. the choice between greenfield startup versus an acquisition). We define a greenfield start-up as a wholly-owned subsidiary that is built from scratch, while an acquisition is defined as taking over an existing local venture by obtaining full ownership control.

Acquisitions versus greenfield start-ups as entry modes

In 2011 the value of cross-border M&As increased to $526 billion (53% increase from 2010) and that of greenfield investments totaled $904 billion (UNCTAD, 2012). According to the World Investment Report, the value of FDI, which reached a worldwide total of $1.5 trillion

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in 2011, was driven in large part by cross-border mergers and acquisitions (M&As) and greenfield start-ups (UNCTAD, 2012), reflecting their increasing importance as ways of expanding firms' operations abroad and as forms of organizational growth.

Firms often use acquisitions to obtain resources and capabilities that they currently lack (Ahuja & Katila, 2001; Hoffmann & Schaper-Rinkel, 2001; Nitsch, Beamish, & Makino, 1996). A firm which obtains full ownership in an existing venture gains access to its assets which can then be integrated with its own firm-specific capabilities to unlock their synergistic potential (Haspeslagh & Jemison, 1991; López -Duarte & García-Canal, 2002). Foreign targets are particularly attractive with respect to the new knowledge and capabilities they can offer acquirers (Shimizu, Hitt, Vaidyanath, & Pisano, 2004).

A firm's choice of greenfield investment, as an entry mode, on the other hand, requires the establishment of a new venture from scratch and is primarily motivated by the firm's desire to deploy resources that it currently possesses (Nitsch et al. 1996; Woodcock, Beamish, & Makino, 1994). Hennart and Park (1993) suggested that greenfield start-ups are used to exploit firm-specific advantages that are embedded into the firm's labor force. According to the authors, "greenfield entry makes it possible to "mold" a virgin management and labor force into the parent's culture" (Hennart & Park, 1993: 1065). The process of establishing greenfields often includes assigning expatriates who have the knowledge and understanding of the firm's organizational culture and routines, and can facilitate their replication in the new venture (Tsang & Yip, 2007). Even if new employees are hired in the subsidiary, research has shown that firms tend to recruit individuals who are a good fit with the existing organizational culture (O'Reilly, Chatman, & Caldwell, 1991).

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Acquisitions require the combination of two established firms (Haspeslagh & Jemison, 1991) and empirical evidence shows that they are often associated with integration problems and failure to create shareholder value (Aybar & Ficici, 2009; Cartwright & Cooper, 1996; Haspeslagh & Jemison, 1991, KPMG, 1999). Implementation problems are even greater in cross-border acquisitions where complications may arise not only as a result of differences in corporate cultures but also due to differences in national culture (Stahl & Voigt, 2008; Weber, Shenkar, & Raveh, 1996; Barkema, Bell, & Pennings, 1996). Consequently, acquisitions often lead to poor performance results and failure to create value (Aybar & Ficici, 2009; KPMG, 1999).

On the contrary, the costs related to the integration of different corporate cultures and strategic orientations are mitigated in the case of greenfield start-ups in which such conflicts do not arise (Nitsch et al., 1996). In fact, this may be one of the reasons why greenfields have been shown to perform better than acquisitions (Li & Guisinger, 1991; Nitsch et al., 1996; Woodcock et al., 1994) and to have higher survival rates (Li, 1995).

Another problem associated with acquisitions arises due to information asymmetry between the buyer and seller. Such asymmetry leads to valuation difficulties of acquisition targets (Woodcock et al., 1994), introduces additional uncertainty (Haunschild, 1994), and carries with it the risk of paying more than the target is worth (Nitsch et al., 1996). Conversely, greenfield start-ups are associated with lower uncertainty in terms of the costs of resource commitment, since firms are generally well-aware of what needs to be paid for the establishment of such ventures (Nitsch et al., 1996).

According to Vermeulen and Barkema (2001), even though acquisitions are associated with higher initial costs than greenfields, they allow the firm to expand its knowledge and resource base, to decrease inertia and potentially, increase organizational performance in the long

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term. Drawing on organizational learning theory (March, 1991), the authors argued that greenfields can be viewed as a way firms can exploit their existing knowledge and resources, while acquisitions are associated with the exploration of new knowledge and resources.

According to Levinthal and March (1993) exploration involves “a pursuit of new knowledge,” whereas exploitation involves “the use and development of things already known” (1993: 105). Thus, seen from an exploitation perspective, greenfields are used to replicate firm’s existing knowledge and skills in a new context. Over time, however, such repetitive replication, can lead to furthering simplicity and inertia (Vermeulen & Barkema, 2001). Conversely, acquisitions require greater change and adaptation of a firm’s routines and practices and based on our discussion, can be considered a riskier investment in the short term. Acquisitions “promote constructive conflict in organizations, which act as shocks to the system, breaking rigidities and inertia, stimulating renewal and change, and enhancing the ability to adapt to new circumstances” (Vermeulen & Barkema, 2001: 461). As a result, whether an organization’s decision-makers would prefer one entry mode to another depends to a large extent on the receptivity of top management team members to change and their willingness to take risks (Wiersema & Bantel, 1992).

Top Management Teams

Following the research tradition that started with Hambrick and Mason seminal paper (1984), our arguments focus on top management teams rather than CEOs alone. Aligning their argument with Cyert and March’s (1963) concept of dominant coalition, Hambrick and Mason (1984) helped turn the attention from the individual (CEO) to the entire TMT because “the chief executive shares tasks and, to some extent, power with other team members” (1984: 196). Since then, the importance of TMTs in shaping organizational outcomes has been widely recognized

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(Carpenter, Geletkanycz, & Sanders, 2004) and empirical evidence has shown that an examination of the TMT rather than the CEO alone may be more useful in studying an organization's ability to change and adapt (Bantel & Jackson, 1989; Finkelstein & Hambrick, 1990; Virany, Tushman, & Romanelli, 1992).

The upper echelons perspective, originally proposed by Hambrick and Mason (1984), is based on the premise of bounded rationality of top executives (Cyert & March, 1963) and centers around top executives' perceptions, values, and cognition through which the organization's internal and external situation are reflected. The authors further suggest that these psychological constructs guide top executives' strategic choice and ultimately influence organizational outcomes. The inherent difficulty of directly measuring executives' cognitions, values, and perceptions (Carpenter, Geletkanycz, & Sanders, 2004) has led researchers to use demographic and compositional characteristics (Pfeffer, 1983) as proxies for these constructs. Carpenter and Fredrickson (2001) noted that, ". . . the influence of top executives in their organizations is often assumed to be a product of their life experiences, as reflected in their demographic characteristics" (2001: 533).

Thus, numerous studies have examined and shown empirically that TMT characteristics are indeed, significantly associated with various organizational outcomes (Carpenter et al., 2004; Finkelstein & Hambrick, 1990; Haleblian & Finkelstein, 1993; Wiersema & Bantel, 1992). Similar to other approaches however, the demographic approach has its limitations and has been the focus of several critiques (Lawrence, 1997; Pettigrew, 1992). The main criticism is the lack of focus on the underlying mechanisms through which demographic variables influence outcomes. According to Lawrence (1997) these intervening psychological and social processes represent a "black box" that needs to be addressed by researchers because it holds important

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information about how demographic composition matters. Such attempts have in fact been made and researchers have examined the mediating role of variables such as conflict (Pelled, Eisenhardt, & Xin, 1999), decision comprehensiveness (Simons, Pelled, & Smith, 1999), social integration, and communication (Smith, Smith, Olian, Sims, Bannon, & Scully, 1994) in the relationship between team demographic variables and organizational outcomes. Nevertheless, empirical evidence shows that demographic characteristics are significantly related to corporate strategies (Bantel & Jackson, 1989; Boeker, 1997; Finkelstein & Hambrick, 1990; Wiersema & Bantel, 1992) and to organizational performance (Cannella, Park, & Lee, 2008; Carpenter, 2002; Finkelstein & Hambrick, 1990; Haleblian & Finkelstein, 1993).

More recently, as firms are increasingly expanding beyond their home markets and facing highly complex and uncertain environments, research has shifted attention to the influence of TMTs composition on firms' international involvement (Tihanyi et al., 2000; Sambharya, 1996; Athanassiou & Nigh, 2002; Reuber & Fischer, 1997). Sambharya (1996) found that foreign experience of TMT members is positively related to the firm's level of international diversification. Tihanyi et al. (2000) extended Sambharya's (1996) findings and showed that lower average age, higher average tenure, higher average elite education, higher average international experience, and higher tenure heterogeneity are associated with firm international diversification.

With regards to entry mode choice prior studies have examined the role of CEO characteristics in the choice between acquisitions, greenfield investments, and joint ventures (Herrmann & Datta, 2002; 2006). Herrman and Datta (2002) found that the choice of full-control entry modes is related to CEO position tenure, throughput functional background, and international experience. In their later study the authors showed association between CEOs (1)

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firm experience, (2) age, (3) throughput functional experience, and (4) international experience and the choice between acquisitions, greenfield start-ups, and joint ventures. Only recently, Nielsen and Nielsen (2011) linked TMTs to the choice of foreign entry mode and found that TMTs are likely to opt for full-ownership entry modes rather than shared-ownership entry modes when they have prior international experience and are less nationally diverse.

Herein, we examine the influence of five demographic characteristics - average team age, organizational and team tenure, international experience, and heterogeneity - on the choice of foreign market location and entry mode. We chose the abovementioned TMT characteristics since prior research has suggested that they represent TMT members' experience, attitudes, and diversity of opinions, and are thus, likely to influence top executives' strategic decisions. Specifically, we propose that the selected TMT characteristics influence the decision to invest in an institutionally distant or in a more proximate country and whether to enter the market by establishing a greenfield start-up or by acquiring a local firm.

THEORY AND PROPOSITIONS

TMT Characteristics and the Choice of Foreign Location and Entry Mode

Age

Top executives' age has been linked to strategic change and to their willingness to take risks. According to empirical findings, younger executives are more open to change and are more willing to adapt to new situations (Wiersema & Bantel, 1992) and thus, more likely to take risks (Vroom & Pahl, 1971). Older TMT members, on the other hand, are more likely to be concerned with their career and financial security and therefore, tend to be more risk-averse and to avoid change (Hambrick & Mason, 1984; Wiersema & Bantel, 1992).

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Extending these arguments to foreign location choice, we can expect TMTs with higher average age to be more reluctant to choose locations at greater institutional distance. TMTs are likely to face greater uncertainty and risk when there is greater institutional distance between the home and host countries. With regards to the entry mode choice, we contend that TMTs with greater average age are more likely to prefer greenfield start-ups to acquisitions. Establishing a greenfield start-up allows firms to replicate their existing organizational structures, culture, and practices (Vermeulen & Barkema, 2001) and to avoid the risks that come with the choice of acquisition as market entry mode, such as choosing the wrong target, paying more than the target is worth, and post-acquisition integration problems (Lee & Lieberman, 2010). Thus, we suggest the following:

Proposition 1a: *TMTs with higher average age are less likely to choose institutionally distant countries as FDI locations.*

Proposition 1b: *TMTs with higher average age are more likely to prefer greenfield start-ups to acquisitions.*

Organizational tenure

Prior research has demonstrated that longer executive tenure in the organization is associated with greater commitment to the status quo (Katz, 1982), reluctance to implement organizational changes (Hambrick et al., 1993), and adoption of less risky and more persistent strategies (Finkelstein & Hambrick, 1990). Furthermore, such reliance on the current organizational configuration limits executives' awareness of and search for alternatives (Pfeffer, 1983; Rajagopalan and Datta, 1996), thus restricting the firm's ability to respond to environmental changes and demands (Miller, 1991). Citing Tolbert (1988), Oliver (1992: 575) notes: "new members with backgrounds and experiences that differ from existing members bring different interpretative frameworks and social definitions of behavior to the organization that act to diminish consensus and unquestioning adherence to taken-for-granted practices."

Thus, we expect that shorter tenured TMTs will be more inclined to invest in countries at greater institutional distance, as they are likely to be willing to take greater risks and are more receptive of uncertainty. With respect to entry mode choice, greenfield start-ups, which serve as an extension of existing organizational structures and practices are likely to be favored by TMTs with longer tenure in the organization. On the contrary, acquisitions are associated with change and adaptation of organizational practices in order to be able to integrate the two companies and create synergies (Haspeslagh & Jemison, 1991). As such, acquisitions allow firms to break inertia and facilitate the development of new knowledge (Vermeulen & Barkema, 2001). Thus, they are more likely to be preferred as a mode of entry into foreign markets by shorter tenured TMTs. Therefore, we suggest the following:

Proposition 2a: *TMTs with higher average tenure in the organization are less likely to choose institutionally distant countries as FDI locations.*

Proposition 2b: *TMTs with higher average tenure in the organization are more likely to prefer greenfield start-ups to acquisitions.*

Team tenure

Research has suggested that teams that have been together for a long period of time tend to isolate themselves from external and internal information sources, and to develop shared cognitive structures (Katz, 1982; Michel & Hambrick, 1992). As a result, convergence in perspectives, shared experiences, and common vocabulary may lead to 'groupthink' and reluctance to search for new knowledge outside the team. Thus, teams with long average tenure

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are likely to resist organizational changes and be less willing to take risks (Wiersema & Bantel, 1992).

Therefore, we expect institutionally distant countries to be more likely to be selected as a foreign investment location by TMTs with shorter team tenure. Furthermore, since greenfields provide an opportunity to transfer firm's resources and capabilities to a new location without much change in established organizational policies and practices they are more likely to be chosen as an entry mode in a foreign market by TMTs with longer team tenure. On the other hand, acquisitions allow firms to expand their knowledge base and capabilities and bring about greater changes and are thus, more likely to be preferred as an entry mode by TMTs with shorter team tenure. Therefore, we propose the following:

Proposition 3a: *TMTs with shorter team tenure are more likely to choose institutionally distant countries as FDI locations.*

Proposition 3b: *TMTs with shorter team tenure are more likely to prefer acquisitions to greenfield start-ups.*

International experience

Prior research has suggested that executives with international experience tolerate greater levels of uncertainty, develop global mindset, and have greater knowledge of foreign cultures (Sambharya, 1998), and institutional environments (Athanassiou & Nigh, 2000). International assignments allow executives to develop an awareness of opportunities abroad (Tihanyi et al., 2000) as well as provide them with the ability to manage the complexity associated with international presence of their firms, and the uncertainty that comes with it (Sambharya, 1996). As a result, executives are more likely to perceive FDI as less risky (Carpenter et al., 2003) and be more confident in their investment decisions (Nielsen & Nielsen, 2011). Furthermore,

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international experience allows executives to develop networks of valuable contacts in foreign countries, which may facilitate the firm's future business endeavors in these markets (Athanassiou & Nigh, 2000). For example, Sambharya (1998) found that greater international experience, in terms of higher average number of years of international experiences of the TMT and greater proportion of TMT members with international experience, are positively associated with the firm's extent of international diversification.

As a result, TMTs with greater international experience are likely to be more flexible, have better access to resources, and be less tolerant of inertia. Therefore, we expect that greater average international experience of the TMT, as well as, that greater proportion of TMT members with international experience will be indicative of TMT's choice of institutionally distant countries as locations for their firm's FDI. Greater international experience is also likely to be associated with the choice of acquisitions as an entry mode since this form of FDI involves the integration of a local unit into the acquiring firm and its success is highly dependent on the executives' knowledge of the foreign culture and business environment. Thus, we suggest the following:

Proposition 4a: *TMTs with greater international experience are more likely to choose institutionally distant countries as FDI locations.*

Proposition 4b: *TMTs with greater international experience are more likely to prefer acquisitions to greenfield start-ups.*

Age, tenure and international experience heterogeneity

Heterogeneous TMTs are assumed to have broader perspective in organizational decision-making (Sambharya, 1998) and to be more open to change (Wiersema & Bantel, 1992). While conflicts can arise in heterogeneous teams, resolving disagreements can, in fact, yield

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better and more novel solutions (Murray, 1989). Homogeneous TMTs, on the other hand, are likely to be committed to the status quo and to exhibit greater cohesion and similarity of viewpoints (Pfeffer, 1983). As such, homogeneous teams have narrower cognitive models that limit their ability to successfully resolve complex problems.

Age heterogeneity in groups has been linked to greater diversity of attitudes, values, and perspectives and as a result, greater creativity and innovation (Bantel & Jackson, 1989). Furthermore, research has shown that diversity of age in TMTs is related to greater diversity of opinion (Tihanyi et al., 2000) and ultimately, greater acceptance of change (Wiersema & Bantel, 1992).

Similarly, executives' experiences, perspectives, and attitudes are likely to differ in heterogeneous teams in terms of tenure. Wiersema and Bantel (1992) suggested that team tenure heterogeneity is likely to result in greater diversity of opinions and thus, encourage consideration of change and challenge of the status quo. Similarly, Boeker (1997) found that diverse tenure TMT teams are likely to undertake strategic change and enter new product markets. In addition, Tihanyi et al. (2000) found that teams with high tenure heterogeneity are associated with firm international diversification.

Levels of international diversification have also been linked to team international experience heterogeneity (Sambharya, 1998). Sambharya (1998) found that heterogeneity in terms of international experiences of the members of the TMT is positively associated with the extent of international diversification. We define international experience heterogeneity as the variety of foreign countries in which TMT members have work or education experience. We contend that the greater the international experience heterogeneity of the TMT, the broader the perspective in decision-making and the more diverse the opinions of TMT's members. As a

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result, we expect such TMTs to be more open to risks and more willing to consider organizational change.

Due to the high complexity and uncertainty of operating in institutionally distant countries, we expect that heterogeneous teams in terms of age, tenure and international experience will be more inclined to take on such challenge. The diverse set of experiences, values and beliefs of such teams will likely provide them with creativity, adaptability, and ability to recognize, and desire to pursue opportunities. Furthermore, since choosing acquisition as an entry mode into a foreign market requires breaking the status quo and implies greater difficulties in managing the integration of the two firms, heterogeneous TMTs may be better equipped to successfully implement such processes. Thus, we suggest the following:

Proposition 5a: *Heterogeneous top management teams with respect to (1) average age, (2) team tenure, and (3) number of countries in which TMT members have international experience are more likely to choose institutionally distant countries as FDI locations.*

Proposition 5b: *Heterogeneous top management teams with respect to (1) average age, (2) team tenure, and (3) number of countries in which TMT members have international experience are more likely to prefer acquisitions to greenfield start-ups.*

CONCLUSION

Foreign direct investment (FDI) is one of the leading choices of firms in internationalizing their operations. When investing abroad firms need to make two critical decisions with regards to where to invest and what mode of entry to use. While prior work has generally assumed that foreign market location and entry mode decisions are rational, research has shown that managerial decisions are in fact, not completely rational (Cyert & March, 1963; Hambrick & Mason, 1984; Hitt & Tyler, 2006). This paper extends prior research on foreign

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direct investment location and entry mode choice by considering the role of TMT composition in these strategic decisions.

We examined the link between TMT characteristics and the choice of investment location in terms of the institutional distance between the host country and the firm's home country. Specifically, we proposed that TMTs with (1) lower average age, (2) shorter average tenure in the organization, (3) shorter average team tenure, and (4) greater international experience are more likely to choose institutionally distant countries as FDI locations. In terms of entry mode choice, TMTs with (1) lower average age, (2) shorter average tenure in the organization, (3) shorter average team tenure, and (4) greater international experience are more likely to prefer acquisitions to greenfield start-ups. Furthermore, our conceptual model suggests that there is positive association between heterogeneity among the TMT with respect to (1) age, (2) team tenure, and (3) international experience and the choice of institutionally distant countries as FDI locations. Moreover, such TMTs are also likely to prefer acquisitions to greenfield start-ups as modes of entry.

Surprisingly, no prior studies have addressed the role of TMT composition in the choice of location of firms' FDI. Thus, this paper contributes to the literature by exploring when TMTs are likely to invest in countries at greater institutional distance from their home country. Furthermore, we complement prior research on foreign market entry mode by considering the role of strategic decision-makers in influencing entry mode choices. Previous studies have mainly focused on the distinction between entry modes in terms of ownership control of the venture. We take a different approach and classify entry modes in terms of the "make" or "buy" decision (i.e. the choice between greenfield start-up versus acquisition). We build on Vermeulen and Barkema's (2001) view of acquisitions as conducive to exploration and allowing firms to

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expand their knowledge and resource base, to decrease inertia and potentially, to increase organizational performance in the long run. On the other hand, greenfield start-ups are associated with exploitation of existing knowledge resources and capabilities, and allow for replication of the ways firms organize and manage their operations, which ultimately contributes to rigidity and inertia (Vermeulen & Barkema, 2001). Thus, we contribute to the foreign market entry mode literature by investigating the effect of a broad range of TMT characteristics on the choice of entry mode in terms of the decision to establish a greenfield start-up or to acquire an existing local venture.

In sum, this paper integrates upper echelons and foreign market location and entry mode literatures to highlight the importance of TMT experiences and cognitive orientations in making the strategic choices regarding which country to invest in and what entry mode to use. Such focus on key organizational decision-makers can enrich our knowledge of the factors that influence critical FDI decisions. We hope that our conceptual model provides a useful framework for future empirical examination of the proposed relationships.

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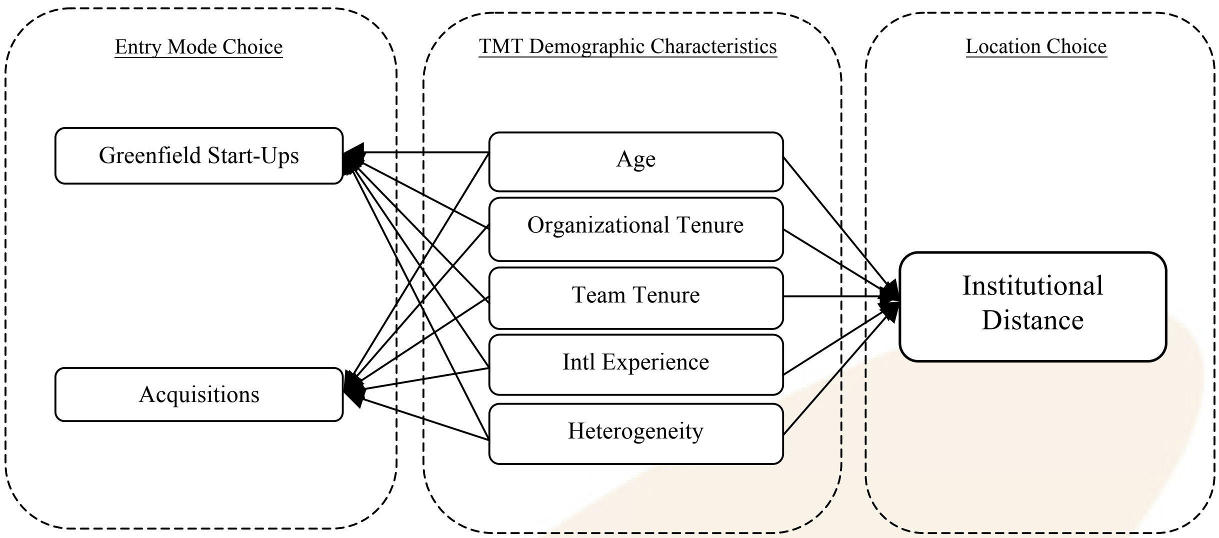

Figure 1: TMT Characteristics Influencing FDI Location and Entry Mode Choice