



**Institutional Distance and Location Choice: An Experimental
Approach to the Perception Puzzle**

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Abstract

Purpose In this research, we designed and implemented a unique vignette experiment to study the effect of managers’ perceptions of institutional distance on foreign location choice, as well as the moderating effect of managerial international experience and preferred entry mode on this relationship.

Design/methodology/approach We employ an experimental vignette methodology (EVM) approach applied in the context of Chinese managers to test the causal relationships depicted in our hypotheses. In this way, we measure the decision-makers' perceptions ex ante, i.e., in conjunction with and prior to a decision about a foreign location choice.

Findings Our findings show that managers’ ex-ante perceptions of institutional distance negatively affect decisions on foreign location choice. Also, we find that managerial international experience and preference for high commitment entry modes mitigate the negative effect of managers’ perceptions of institutional distance on foreign location choice.

Originality/value This research study adds to our understanding of the effect of managers’ perceptions of institutional distance and managerial contingencies on foreign location decisions. Further, it advances novel experimental design in international business research in general and on foreign location choice in particular.

Keywords Foreign location choice; experimental vignette methodology; institutional distance; managerial international experience; entry mode choice

1 Introduction

Distance is presented as the essence of international business (IB) (Zaheer, Schomaker, & Nachum, 2012). Yet, despite its wide application in explaining a variety of strategic decisions made in firms' internationalization process, there has been a continuous — and indeed passionate — debate regarding the construct of distance, and in particular, its operationalization during the past couple of decades (Beugelsdijk, Ambos, & Nell, 2020; Shenkar, 2001). Owing to its relatively easy calculation and increasing use of secondary datasets in IB research, the Kogut and Singh (1988) index has been acknowledged as the dominant approach to measure the distance construct (Cuypers, Ertug, Heugens, Kogut, & Zou, 2018). However, this approach has been heavily criticized, mainly on the premise that managers formulate strategies for responding to the environmental demands based on their individual *perceptions* of the firm's (external) environment (Aharoni, 2010; Baack, Dow, Parente, & Bacon, 2015; Buckley, Devinney, & Louviere, 2007).

Extant research posits that differences in formal rules and informal constraints between the home and host country, i.e., institutional distance, is a crucial driver of key strategic decisions of firms, such as foreign location choice (Bailey, 2018; Kostova, 1999; Makino, Isobe, & Chan, 2004). However, the empirical results on the link between institutional distance and choice of foreign location are still, to a large extent, inconclusive (Bailey, 2018; Zhang, He, Wang, & Wang, 2023). The initial assumption is that foreign locations that are institutionally close to the home market are generally more attractive for the internationalizing firm (Nordstrom & Vahlne, 1994); this is mainly due to the ease of learning about differences and the low levels of uncertainty (Johanson & Vahlne, 1977). On the other hand, in institutionally distant locations firms can face difficulties in the collection and interpretation of critical management information,

leading to additional costs of doing business in the foreign market. Institutional distance increases the firm liability of foreignness and hence uncertainty in the new foreign market (Beugelsdijk, Nell, & Ambos, 2017; Håkanson & Dow, 2012). This hypothesis has been confirmed by some later empirical studies (cf. Chelariu, Bello, & Gilliland, 2006; Luo & Peng, 1999; Slangen, 2006). However, other empirical studies, relying on the notion of the “distance paradox”, report that the unique opportunities available in terms of first mover advantages and less direct competition can make institutionally distant markets more attractive (Evans & Mavondo, 2002). Furthermore, in the case of cross-border acquisitions, Morosini, Shane, and Singh (1998) argue that firms in institutionally distant markets might provide firms in the home country with access to unique routines and repertoires, which would make those markets more attractive. Similarly, O’Grady and Lane (1996) suggest that in foreign locations where institutions are very similar to those in the home market, firms may encounter stronger competition from local firms because of difficulties in establishing a clear basis for differentiation; this can make institutionally close markets less attractive.

We contend that such inconclusiveness can be partly attributed to the underplayed, and therefore, also under-researched role of managerial cognition on distance. In favor of this position, Buckley et al. (2018: 167) argue that “accounting for the intervening role of managerial cognition in the decision process may reconcile the mixed findings of prior research”. In the same vein, a recent review on the effect of institutions on location decisions reveals that only a very limited number of studies attempt to look into the role of decision-makers in the cognitive processing of the institutional environment (Donnelly & Manolova, 2020). While particular emphasis has been put on using secondary data to examine the effect of distance on strategic decision-making, this has also resulted in completely removing the managers – who make the

actual decisions – from the equation, thus oversimplifying and narrowing the focus on specific differences (Brouthers, 2013; Buckley, Chen, et al., 2018; Harzing, 2004; Nielsen & Nielsen, 2011). Therefore, it can be argued that further validity can be sought by incorporating individual managers' perceptions, preferences, abilities, biases, and experiences into the theoretical models of location choice (Maitland & Sammartino, 2015a; Nielsen & Nielsen, 2011). Furthermore, despite the increasing efforts towards incorporating perceptual measures of distance based on boundedly rational decision makers (i.e., psychic distance¹) to explain location choice, methodological impediments have given rise to questions regarding the validity of the findings of studies that use a perception-based measure, as those studies² are mainly relying on observational data and cross-sectional tests, i.e., measuring the decision-makers' perceptions *ex post* (Dow & Karunaratna, 2006). The latter was presumably due to a difficulty in surveying decision-makers' perceptions immediately prior to internationalization decisions or because the actual decision making is not easily observable (Dow & Karunaratna, 2006; Schotter & Beamish, 2013). In other words, a certain level of ambiguity exists in relation to whether managers' perceptions have influenced the decision or whether the post-decision experience has influenced their perceptions (Dow & Karunaratna, 2006).

To reconcile the inconclusive findings regarding the link between institutional distance and foreign location choice, we draw on the upper echelons theory (Hambrick & Mason, 1984) and employ an experimental vignette methodology (EMV) approach to survey managers' perceptions of institutional differences in conjunction with and prior to a foreign location

¹ Psychic distance was defined as the sum of individual managers' perceptions of the contextual differences between two countries (Johanson & Vahlne, 1977).

² A review of the empirical studies that used psychic distance as an independent variable shows that in the vast majority of cases perceptions of decision makers regarding distance to the foreign countries have been measured *ex post* (see Table A1 in the Web Appendix).

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3 decision. In this way, first, we aim to answer the question of how managerial perceptions of
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5 institutional distance affect foreign location choice. According to the upper echelons theory,
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7 through their impact on communication, socio-cognition, and information processing
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9 competencies, the traits of senior executives can predict organizational outcomes (Hitt & Tyler,
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11 1991; Nielsen & Nielsen, 2011; Tihanyi, Ellstrand, Daily, & Dalton, 2000). Accordingly, we
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13 examine the moderating effect of managers' international experience on the link between
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15 managerial perceptions of institutional distance and foreign location choice. According to Hsu,
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17 Chen, and Cheng (2013: 1), "Without taking into consideration the context of managerial
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19 competence in the internationalization–performance model, the findings remain incomplete."
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21 Second, we aim to provide a more nuanced empirical solution to the problem of causality that
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23 typically characterizes the relationship between institutional distance and strategic decision
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25 making. Experimental research, which is known for its superior ability to demonstrate causality,
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27 has only recently attracted interest in IB research (cf. Ambos, Cesinger, Eggers, & Kraus, 2020;
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29 Dow, Baack, & Parente, 2020). As a result, most IB distance-related studies still fail to deal
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31 effectively with the problem of establishing causal inferences, which tends to be a typical issue
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33 also for the majority of IB empirical studies. Finally, we examine the moderating effect of
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35 managers' preferred entry mode on their location choice decisions. When making decisions
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37 about internationalization in the pre-investment phase, managers likely consider not only the
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39 location choice but also the mode of entry that they plan to use to enter the foreign market
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41 (Beugelsdijk, Kostova, Kunst, Spadafora, & van Essen, 2018). In addition, it has been already
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43 established that the choice for higher or lower levels of commitment is a way for managers to
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45 deal with their perceptions of distance to certain locations (Johanson & Vahlne, 1977).
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47 Consequently, the choice of entry mode becomes a pivotal consideration shaping managers'
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3 perceptions of institutional distance and, successively, their assessment of a market's
4 attractiveness. This interplay emphasizes the need for a better understanding of how managers'
5 preferred entry mode acts as a significant moderator, shaping the relationship between
6 institutional distance perceptions and foreign market attractiveness.
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12 This research contributes both theoretically and methodologically to the research stream
13 on institutional distance and foreign location choice. From a theoretical perspective, this study
14 contributes by evaluating the causal effect of distance perceptions of boundedly rational decision
15 makers on foreign location choice *ex ante*. Scholars have proposed several speculative
16 theoretical arguments to explain the inconclusive results regarding the link between distance and
17 foreign location choice (Magnusson, Schuster, & Taras, 2014). However, very few studies have
18 questioned the methodological confusion as an underlying reason for such inconclusiveness
19 (Kraus, Ambos, Eggers, & Cesinger, 2015). Further, the examination of managerial
20 contingencies, such as managerial international experience, adds to the discussion on the
21 contingent role of managerial traits on the aforementioned relationship, which contributes by
22 further complementing existing IB research (Aharoni, Tihanyi, & Connelly, 2011). Additionally,
23 we find a moderating effect of entry mode on the relation between ex-ante individual managers'
24 perceptions of institutional distance and location choice, providing evidence for the idea that
25 these choices are related in the minds of managers, such that when expressing their preference
26 for a foreign market—given their perceptions of institutional distance—they do so by
27 considering the level of commitment they have in mind. From a methodological standpoint, this
28 study advances a novel experimental design in IB research on the role of managers' perceptions
29 of distance in their internationalization strategies. Following recommendations by Beugelsdijk,
30 Kostova, and Roth (2017) and relying on the institutional economics approach (Kostova,
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Beugelsdijk, Scott, Kunst, Chua, & van Essen, 2020), we developed four scenarios (vignettes) in which markets' institutional profiles—in relation to the home market—were balanced. We asked managers to express their perceptions and likely decisions based on the institutional profiles depicted in each of these scenarios. According to Dow et al. (2020), the use of *a priori* perceptions of distance through an experimental setting can more efficiently facilitate the demonstration of causality. It is noteworthy that experiments are more common in international marketing studies that relate to consumer behavior, but they are less common in studies related to managers (Wang & Yang, 2008). Therefore, the application of experimental methods can indeed benefit IB research in order to evaluate the internal validity of IB theories and to establish causality between other IB concepts and so generate new insights (Zellmer-Bruhn, Caligiuri, & Thomas, 2016).

2 Hypotheses development

2.1. The causal effect of perceived institutional distance on foreign location choice

As with any strategic decision, the decision regarding foreign location choice is being made by relying on imperfect information. In the context of international strategy, a foreign location's contextual factors can influence managers' perceptions of the host market relative to their firm's home market (Kraus et al., 2015). Perception is a critical process that guides individual managers' behavior (Cook & Hunsaker, 2001). Through this process, managers receive the information from the environment, and then filter, organize, and interpret it, which results in action or thought patterns (Hambrick & Mason, 1984; Mullins, 1999). Factors such as managers' personal characteristics (e.g., knowledge, interests, training, past experience) and the characteristics of the target being perceived (e.g., foreign location contextual factors) can affect an individual manager's perceptions. Therefore, different managers may perceive the same

foreign location in different ways, resulting in them making different strategic decisions (Hambrick & Mason, 1984; Maitland & Sammartino, 2015a; Starbuck & Milliken, 1988; White, Varadarajan, & Dacin, 2003). Nevertheless, IB research has very often ignored individual managers and their perceptions of uncertainty (Aharoni, 2010; Harzing, 2004; Suh, Bae, & Kundu, 2008).

Institutional distance to foreign markets creates uncertainty for decision makers, since they see themselves as lacking sufficient market information to accurately predict the challenges facing the firm in the new (distant) foreign market environment. Institutional distance represents a barrier to the international transfer of information, increasing the costs for both the collection and interpretation of critical management information, which in turn, increases uncertainty in the new foreign market (Håkanson & Dow, 2012; Ojala, 2015). Moreover, institutional distance can potentially diminish the legitimacy and increase the liability of foreignness, leading to additional costs of doing business in the foreign market (Liou, Chao, & Yang, 2016; Maitland & Sammartino, 2015a; Slangen & van Tulder, 2009). It has been also suggested that firms can face legal difficulties when interacting with business partners from institutionally distant markets (Abdi & Aulakh, 2012). Therefore, the general assumption in the IB literature is that foreign markets that are perceived as being institutionally similar to the home market are also more attractive to the managers of internationalizing firms (Nordstrom & Vahlne, 1994). The more similar a foreign location is to the home market, the easier it is for managers to learn about this market's institutions and how to manage them. Similarity is expected to lower the level of uncertainty (Johanson & Vahlne, 1977), as managers anticipate that they can transfer the knowledge of their own market to the institutionally similar or "close" locations, thus resulting in a potentially better performance (Chelariu et al., 2006; Luo & Peng, 1999; Maitland &

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3 Sammartino, 2015a). Nevertheless, empirical results in the IB literature are still inconclusive,
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5 and several empirical studies that rely on the notion of the “distance paradox” state that due to
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7 difficulties in establishing a clear basis for differentiation, firms may indeed encounter stronger
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9 competition in institutionally close markets, which can make those markets less attractive for
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11 firm internationalization (O’Grady & Lane, 1996). Others argue that distance brings about
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13 unique opportunities in terms of first mover advantages and less direct competition, or in the case
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15 of cross-border acquisitions, targets in distant markets might provide companies with access to
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17 routines and repertoires that could enhance the (combined) firm’s performance (Evans &
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19 Mavondo, 2002; Morosini et al., 1998). However, despite proposing several speculative
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21 theoretical arguments (Magnusson et al., 2014), very few studies have questioned the
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23 methodological confusion as an underlying reason for such inconclusive results (Kraus et al.,
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25 2015). This means that these studies mainly rely on observational data and cross-sectional tests
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27 (see Table A1 in the Web Appendix), i.e., measuring the decision-makers' perceptions *ex post*
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29 (Dow & Karunaratna, 2006).
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36 Thus, in accordance with the initial assumption, our baseline hypothesis evaluates the
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38 causal effect of managers’ perceptions of institutional distance on the attractiveness of a foreign
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40 location *ex-ante*.
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43 **Hypothesis 1:** *Perceiving a foreign market as institutionally distant from the home*
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45 *market has a negative effect on the attractiveness of the market for the firm’s potential*
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47 *expansion.*
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50 2.2. *The moderating effect of manager’s international experience*

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52 As argued above, institutional distance challenges managerial learning about new foreign
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54 markets, and it exacerbates the liability of foreignness and uncertainty (Håkanson & Dow, 2012;
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Ojala, 2015). The perceptions of managers regarding the institutional distance to the host markets, however, can be influenced by individual traits, such as their international experience (Hambrick & Mason, 1984; Maitland & Sammartino, 2015a). Through their impact on communication, socio-cognition, and information processing competencies, an individual manager's traits can affect and predict organizational outcomes (Hitt & Tyler, 1991; Nielsen & Nielsen, 2011; Tihanyi et al., 2000). Managers with international experience, who have been active in one or more foreign countries, are directly exposed to diverse institutional contexts. This enables decision makers to become familiar with various regulatory frameworks, legal systems, cultural norms, and business practices (Perkins, 2014). Better comprehension of such diverse institutional systems, as well as the effects of the disparities between the home country and the target market in this regard, helps to reduce the negative influence of institutional distance (Slangen & van Tulder, 2009).

Experience with working in institutionally diverse environments is not only relevant because of the enhanced knowledge about institutional systems and their consequences for doing business in the foreign market; managers with international experience have also learned how to develop the local business relations that enable them to access local networks and resources (Coviello & Munro, 1997; Hohenthal, Johanson, & Johanson, 2014). They know how to leverage these relationships to overcome institutional barriers, gain market knowledge, and identify potential partners or opportunities (Ge & Wang, 2013; Karami & Tang, 2019). Knowing how to access networks and resources installs confidence in managers and helps them better navigate new cultural and regulatory landscapes as well as mitigate the negative effects of institutional distance on the attractiveness of new foreign markets.

Finally, managerial international experience may cultivate the development of a global mindset (Gupta & Govindarajan, 2002). A global mindset provides managers with “the ability to develop and interpret criteria for personal and business performance that are independent from the assumptions of a single country, culture, or context; and to implement those criteria appropriately in different countries, cultures, and contexts” (Maznevski & Lane, 2004: 172). By working in different cultural and regulatory settings, managers can enhance their awareness of international diversity and develop not only adaptability and flexibility but also a larger repertoire of strategic solutions for doing business in new foreign markets through greater cognitive capabilities (Levy, Beechler, Taylor, & Boyacigiller, 2007). International experience thus results in enriched mental models that may help managers to make a more accurate assessment of the potential challenges and opportunities associated with operating in the new foreign market (Maitland & Sammartino, 2015b), hence increasing the likelihood that these managers will invest in institutionally distant countries compared to managers without such international experience. Thus, we anticipate that managers’ international experience mitigates the effect of institutional distance on the attractiveness of the foreign market.

Based on the above arguments, we posit the following hypothesis:

Hypothesis 2: *Managerial international experience will mitigate the negative effect of perceived institutional distance on the attractiveness of the target market for the firm’s potential expansion.*

2.3. *The moderating effect of managers’ preferred entry mode*

In the pre-investment phase, managers not only select a location for the intended investment, but they also make organizational decisions, such as what entry mode to use when entering a foreign

market (Beugelsdijk et al., 2018). Indeed, internationalization strategies consist of a number of interdependent decisions that are probably taken together (Beugelsdijk et al., 2018; Peng & Meyer, 2011). We argue here that a manager's preferred entry mode moderates the influence of perceived institutional distance on the appraisal of the attractiveness of a location for the investment. The literature suggests that the decision over a mode of entry in a foreign venture is determined by the role control plays in such an investment (Herrmann & Datta, 2002). If control of resources is important, managers are more likely to opt for high commitment modes of entry; otherwise, low commitment modes of entry are more likely to be pursued. Ranging from low to high levels of commitment and control, firms may choose exporting, contractual agreement, franchising, licensing, joint venture, or wholly owned subsidiary (Kotler, Manrai, Lascu, & Manrai, 2019).

The literature provides two core theoretical arguments that relate the choice for high-resource commitment entry modes, such as wholly owned investments, to greater levels of control over firms' operations (Kotler et al., 2019; Zhao, Luo, & Suh, 2004). First, the need for high control over foreign operations is explained by the internalization theory, which claims that in environments where transaction costs are high, disseminating technology or other resources to a joint venture partner or a licensee can prove costly for the internationalizing firm (Hill, Hwang, & Kim, 1990). However, the perceived risk of knowledge appropriation can be mitigated and the possibility of partner opportunism can be limited if the internationalizing firm opts for a high-resource commitment entry mode, such as a wholly owned subsidiary (Chiao, Lo, & Yu, 2010). Internationalizing firms that expand into highly dissimilar institutional environments are more likely to be affected by such transaction costs (Hernández & Nieto, 2015). Second, further to mitigating the risk of opportunism, the control that accompanies high-commitment entry modes

may give managers more certainty regarding the possibility that they can influence local operations and respond flexibly to potential changes in the institutional environment (Santangelo & Meyer, 2011). High-commitment entry modes thus correspond to the feeling of managers that, although they may not be able to change the 'state' uncertainty (Milliken, 1987) related to the perceived institutional distance, they have more opportunities to strategically respond to changes or volatility in the foreign environment; i.e. they may decrease their 'response uncertainty' (Milliken, 1987). This suggests that while perceived institutional distance generally relates to higher levels of uncertainty or risk in a foreign environment (Håkanson & Dow, 2012) and therefore is seen as less attractive to foreign entry (Slangen & van Tulder, 2009; Nordstrom & Vahlne, 1994), managers' preference for high-commitment entry modes reflects their self-evaluated ability to deal with the uncertainty or risk (Buckley, Chen, Clegg & Voss, 2020). As such, managers that strategically respond to their perceptions of high institutional distance by choosing high-control entry modes may assess the attractiveness of a distant market relatively more positively than managers that prefer low-control entry modes.

Thus, while we generally expect that perceived institutional distance negatively influences the attractiveness of a foreign market, as per hypothesis 1, we anticipate that for managers that prefer to invest using high commitment entry modes, their increased level of control and decreased (response) uncertainty over the foreign operations, as intended, will help to mitigate the negative effect of institutional distance on the attractiveness of the foreign market.

Based on the above arguments, we posit the following hypothesis:

Hypothesis 3: *High commitment entry modes will mitigate the negative effect of perceived institutional distance on the attractiveness of the target market for the firm's potential expansion.*

3 Research methodology

In this study, we employed an experimental vignette³ methodology (EVM) approach to test the causal relationships depicted in our hypotheses. “The essence of experimentation is the ability to control and manipulate variables in a systematic manner” (Leung, Bhagat, Buchan, Erez, & Gibson, 2005, p. 371); therefore, experiments are considered powerful tools to assess the cause and effect relationship between variables. Through controlling the levels of the independent variable under study (institutional distance in this study), experiments allow the researcher to demonstrate that the cause/independent variable preceded the effect/outcome variable (foreign location choice in this study), and hence, alternative explanations can be ruled out (Zellmer-Bruhn et al., 2016). Nevertheless, despite its superior ability to demonstrate causality, the experimental methodology (including EVM) is notably underrepresented in IB research (Aharoni et al., 2011; Leung et al., 2005; Zellmer-Bruhn et al., 2016). EVM is particularly useful when variables are known to correlate, but there is a need to determine the nature and direction of causal relationships - a common complication in IB research (Reeb, Sakakibara, & Mahmood, 2012) and in particular regarding the effect of “distance” on internationalization decisions (Dow & Karunaratna, 2006). Scholars maintain that the empirical results on the link between institutional distance and foreign location choice is still to a large extent inconclusive (Bailey, 2018; Zhang et al., 2023). Thus, EVM allowed us to exercise control over our independent

³ The term ‘vignette’ refers to “a short, carefully constructed description of a person, object, or situation, representing a systematic combination of characteristics” (Atzmüller & Steiner, 2010: 128).

variable to gather evidence regarding causation and hence to include factors that were relevant to our research question while excluding those that might confound the results (Aiman-Smith, Scullen, & Barr, 2002). Combining ideas from classical experiments and the survey methodology, EVM synergizes the high external validity of traditional surveys (due to their multivariate measurements) with the high internal validity of experimental designs (due to manipulation and random assignment) (Aguinis & Vandenberg, 2014; Atzmüller & Steiner, 2010).

3.1 Empirical setting and sample

In this study, we focused on foreign location choice from the perspective of an important emerging market, namely, China, a country that has made an incredibly swift appearance in the global business arena, which has led to questions being raised about the explanatory power of traditional IB theories (Buckley, Clegg, Voss, Cross, Liu, & Zheng, 2018). China is one of the world's three most important sources of foreign direct investment accounting for 4.9 per cent of global OFDI (Buckley, Clegg, et al., 2018). Research shows that Chinese firms are expanding not only into traditional host markets (developed countries) but also into developing countries, particularly in Asia and South America (Ramasamy, Yeung, & Laforet, 2012), which makes them particularly relevant for our study. On the other hand, Mathews and Zander (2007) argue that by seeking knowledge and institutional support, Chinese firms have succeeded in mitigating the disadvantages of their late arrival into developed countries with substantial institutional differences. Expansion into markets with diverse institutional arrangements is, therefore, a relevant context for Chinese managers. Moreover, recent studies call specifically for research to incorporate the role of decision makers in shaping emerging market firms' entry mode strategies (Surdu, Mellahi, & Glaister, 2018).

To recruit our sample and conduct the online survey, we used Qualtrics, a professional online panel provider, which is increasingly used in academic research (cf. Chatterji, Findley, Jensen, Meier, & Nielson, 2016; Fung, Qiao, Yau, & Zeng, 2020; Petrenko, Aime, Ridge, & Hill, 2016).

To ensure representativeness⁴, we set the following criteria for our sample: (1) possession of a managerial role in a firm and (2) having experience of international business. This group of respondents were deemed to be appropriate for our experiment, as they have relevant experience of foreign location decisions (Aguinis & Bradley, 2014). Individual links were sent via Qualtrics in 2019 to a panel of 579 randomly selected respondents who met the above criteria; of these, 208 agreed to participate in our study (i.e., 52 for each scenario, which is significantly above the minimum recommended number of subjects for each scenario) (cf. Cohen, Manion, Morrison, & Morrison, 2007; Gall, Borg, & Gall, 1996). Using individual links allowed us to ensure that each participant took the survey only once, as the links could be used only once and then became invalid. We used a specific function of the electronic survey tool to randomly assign any given participant to one of the experimental conditions⁵ (scenario treatments). Random assignment ensures that unmeasured variables do not meaningfully correlate with our independent variables (Zellmer-Bruhn et al., 2016). All participants were first provided with information about data confidentiality and procedures and were given general information about the structure of the research and their role in the given task in order to set a common frame for the experiment (see the Web Appendix). However, due to the experimental nature of the study and to avoid self-selection bias (Olsen, 2008), the focus of the study (i.e., the effect of institutional distance on

⁴ Representativeness refers to “the extent to which design captures important elements of real-life judgement situations” (Aiman-Smith et al., 2002, p. 392), a necessary element to enhance the external validity of results.

⁵ Employing a between-subjects design allows us to minimize the learning effect on conditions/scenarios (Viglia, Zaefarian, & Ulqinaku, 2021).

foreign location choice) was not communicated to the participants. To ensure that respondents' paid attention and that they responded thoughtfully, we conducted a pilot of 20 randomly selected respondents. We calculated the median length of completion of the questionnaire, and then we added a speeding check – measured as 1/3 the median time – that automatically terminated those not responding thoughtfully.

3.2 Experimental design and the main independent variables

We developed four scenarios (vignettes) in which markets' institutional profiles (Beugelsdijk, Kostova, et al., 2017) in relation to the home market (China) were balanced ('manipulated'). To create the institutional profiles, we adopted the institutional economics approach to categorize institutions into formal and informal institutions (Kostova et al., 2020). The first scenario described a market with an institutional profile very close (similar) to that of China with regard to both formal and informal institutions. The second scenario was related to a market that was close to that of China with regard to informal institutions but distant (different) regarding formal institutions. The third scenario described a market that was distant from China with regard to informal institutions but close regarding formal institutions. Finally, the fourth scenario was related to a market with an institutional profile that was very distant from China with regard to both dimensions (Table 1). We designed the scenarios (institutional profiles) based on the extant "distance" literature and benefited from previous IB studies that used experimental designs (e.g., Baack et al., 2015; Yildiz & Fey, 2016). To further ensure representativeness, we constructed the scenarios to be as realistic as possible (Aiman-Smith et al., 2002), in consultation with a Chinese manager, a Chinese academic, and two senior expert academics. We initially identified Chinese firms' main target markets in both developed and developing countries and extracted secondary data regarding each market's formal and informal institutions. We then selected as many markets

as potentially fitted our scenarios (at least two markets for each scenario). Finally, based on these markets' attributes, we drafted the scenarios. However, to avoid self-selection bias (Olsen, 2008), we did not mention any actual market's name in the scenarios, so respondents' perceptions and decisions were formed by the institutional profiles only.⁶ We initially designed the scenarios (including corresponding questions) in English, and to reduce the risk of misinterpretation, these were then professionally translated into Chinese. The Chinese draft of the scenarios was reviewed by a Chinese academic for minor modifications, after which it was translated back into English to double-check the correspondence of the terminology used in both languages. We asked our respondents to express their perceptions and likely behaviors/decisions based on the information provided in each of these scenarios⁷.

To create those four institutional profiles, in line with previous studies, we used national culture as the proxy for markets' informal institutions (Hofstede, Van Deusen, Mueller, Charles, & Network, 2002; Peng, Sun, Pinkham, & Chen, 2009; Slangen & van Tulder, 2009). Accordingly, we described and balanced each market's informal institutions based on Hofstede's (Hofstede, 1980) definitions and descriptions of the four original dimensions of national culture: power distance (PDI), individualism (IND), masculinity (MAS), and uncertainty avoidance (UAI) (Evans & Mavondo, 2002; Evans, Mavondo, & Bridson, 2008). It is noteworthy that these dimensions are also consistent, to a large extent, with the dimensions identified by other frameworks, e.g., the GLOBE study (House, Hanges, Javidan, Dorfman, & Gupta, 2004). We

⁶ To confirm the validity of our approach, we pre-tested a UK-adapted version of scenarios using a sample of 149 under/postgraduate and PhD students from a UK-based university. A regression analysis of scenarios confirmed our initial expectations, that is, distance is negatively related to a foreign market's attractiveness. See the Appendix file for more details. The results can be requested from the authors.

⁷ It is important to mention that we did not refer to comparisons to China in the scenario descriptions but described only the institutional profile of the potential host market using qualifications that made them resemble (or not) the situation in China (Beugelsdijk, Kostova, et al., 2017).

used China’s national cultural characteristics (based on Hofstede’s scores⁸ with regard to the above four dimensions) as a basis to define the target markets as either institutionally close to or distant from China. We first calculated the mean of each dimension for all the countries in Hofstede’s study to further screen our nominated target markets.⁹ Subsequently, we defined an institutionally close market as a market with relatively high levels of PDI and MAS and relatively low levels of IND and UAI (Hofstede, 2001).

Regarding formal institutions, following prior research (Holmes Jr., Miller, Hitt, & Salmador, 2013; Marano, Arregle, Hitt, Spadafora, & van Essen, 2016), we focused on what managers perceive to be the most relevant institutions (Abdi & Aulakh, 2012; Holmes Jr. et al., 2013; Marano et al., 2016) and described and balanced the markets’ formal institutions with regard to legal, political, and economic institutions (Evans et al., 2008; Ghemawat, 2001). We used the home market’s formal institutional characteristics with regard to the stability of its political structure, ideology of national government, consumer protection legislation, and business ownership legislation as a basis to define target markets as either institutionally close to or distant from the home market. Following previous studies (Child & Marinova, 2014), we defined China as a country with a relatively stable political structure. On the other hand, China is considered a country with relatively low standards of consumer protection and business ownership legislation. The government system in China is based on one dominant party. Accordingly, for scenario development, an institutionally close market was defined as a market with a relatively stable political structure, specifically, a government system based on one dominant party in which consumer rights and business ownership are not well protected. With

⁸ The scores for China are PDI = 80, IND = 20, MAS = 66 and UAI = 30.
⁹ The mean values are as follows: PDI = 57 (SD = 22), IND = 43 (SD = 25), MAS = 49 (SD = 18) and UAI = 65 (SD = 24).

regard to economic institutions, we described and balanced the markets' economic environment using two indicators: per capita gross domestic product (GDP) and level of demand for goods and services (Evans et al., 2008; Ghemawat, 2001). According to the International Monetary Fund,¹⁰ China is a developing country with a per capita GDP = 9,770 current USD (World Bank, 2018). Thus, for scenario development, we defined an institutionally close market as a market with a GDP of less than 10,000¹¹ USD per capita with a high level of demand for goods and services in general. Please see Table A2 in the Web Appendix for a complete list of the variables used in the four scenarios.

--- Please insert Table 1 about here ---

3.3 Dependent, moderating, and control variables

3.3.1 *Dependent variables*

We use three items to measure the attractiveness of a foreign market (Malhotra, Sivakumar, & Zhu, 2009). We asked respondents to indicate the extent to which they would a) describe the foreign market overall as an opportunity, b) label the venture (i.e., expansion to the foreign market) as something positive, and c) assess whether the future looks promising for selling the product in that foreign market (1 = to a small extent, 5 = to a great extent). The outcome variable is the average score of all the aforementioned three components of the attractiveness of a foreign market. To assess the validity and reliability of our dependent variable, we performed a

¹⁰ International Monetary Fund, World Economic Outlook database, April 2018.

¹¹ We defined the distant market as a market with a GDP of higher than 40,000 USD per capita (average of GDP per capita of countries ranked by International Monetary Fund in 2017 excluding the top 20 countries) with a relatively low level of demand for goods and services.

confirmatory factor analysis. Our factor analysis (principal component factors) applied on the three components of market attractiveness produced one factor with an eigenvalue equaling 2.027, a Cronbach's alpha equaling 0.760, and an AVE equaling 0.675.

3.3.2 Moderating and control variables

This study uses two moderating variables, namely, managerial international experience and preferred entry mode. First, managerial international experience is a count variable and is measured as a manager's number of years of international experience (Magnusson & Boggs, 2006). The average number of years of managerial international experience in our sample is approximately 9 years. Our second moderating variable focuses on managers' preferred mode of entry into the foreign market that corresponds to the scenario. Specifically, our participants were asked what mode of entry they would preferably use if expanding to the country described in the scenario given to them. We operationalized this as a binary variable that takes the value 1 in the case of a high commitment (equity) entry mode (i.e., sales offices and manufacturing subsidiaries) and the value 0 in the case of a low commitment (non-equity) entry mode (i.e., direct exporting; sales agent and licensing / franchising) (Pan & Tse, 2000).

We use managerial age as our unique control variable in the analysis. Managerial age has been proposed to have an impact on managers' perceptions and strategic choices (Barker & Mueller, 2002; Hambrick & Mason, 1984). Recent research shows that managerial age is positively associated with foreign market knowledge (Amankwah-Amoah, Adomako, Danquah, Opoku, & Zahoor, 2022) and propensity to internationalization (Chittoor, Aulakh, & Ray, 2019). It has been suggested that top managers are likely to increase their international expansion endeavors later in life after first having accumulated the required stock of knowledge and

experience (Davis & Harveston, 2000). This variable corresponds to the responding manager's age at the time of the survey as a proxy for their general experience and maturity (Hsu et al., 2013). The average managerial age in our sample is approximately 35 years, which indicates that the sample of managers that participated in the study were relatively young.

Table 2 provides a detailed description of all the variables used in our study, while Figure 1 portrays the conceptual model of our study. The first column of the conceptual model presents the items of the two institutional pillars (formal and informal) that we used to design each of the four scenarios (Kostova et al., 2020). The second column presents the four dichotomous variables (independent variables) that have been created as a result of the four market scenarios/institutional profiles. The third column presents the moderating variables of managerial international experience and preferred entry mode. The fourth column is the dependent variable, market attractiveness, while the last column presents the control variable used in our study.

--- Please insert Table 2 and Figure 1 about here ---

4 Data analysis and research findings

Table 3 presents the descriptive statistics and pairwise correlations of the variables included in the analysis. A close examination of the correlation table does not show any signs of inflated correlation coefficients. As the rule of thumb for multicollinearity to be flagged as a potential concern is the threshold of 0.7, multicollinearity is not seen as a possible concern for our analysis. In addition, we estimated the variance inflation factors (VIFs) for each model and found that they strengthened our belief that multicollinearity is not a concern for our models: the

highest VIF score is below the threshold of 5.0, the most common cut-off point for the indication of multicollinearity.

As a manipulation check, we used formal and informal institutional distance constructs. Specifically, we examined whether the perceived formal and informal institutional distance of the participants against Scenario 1 (low distance) is statistically different to that of the rest of the scenarios, which are characterized by relative distance in regard to either formal or informal institutions or both. The results of the one-way ANOVA test indicate that perceived formal institutional distance between the group of Scenario 1 and the rest of the groups is significant ($M_{\text{Formal1}} = 3.01$, $M_{\text{Formal2}} = 3.22$, $F = 2.91$, $p < 0.001$). We find a similar result for the perceived informal institutional distance between the group of Scenario 1 and the rest of the groups ($M_{\text{Informal1}} = 3.11$, $M_{\text{Informal2}} = 3.13$, $F = 1.42$, $p = 0.067$). Accordingly, the manipulations can be deemed successful.

--- Please insert Table 3 about here ---

To test our hypotheses, we employed an ordinary least squares (OLS) model, as it best aligns with the nature of our dependent variable, market attractiveness, which is a scale variable. We estimated our models using STATA v.15. Further, the experimental design of our study calls for clustering of our standard errors. Since the treatment (i.e., the task of each manager to provide their assessment based on a given scenario) is assigned at the scenario (group) level, we clustered standard errors by the assigned group (Abadie, Athey, Imbens, & Wooldridge, 2017).

--- Please insert Table 4 about here ---

Table 4 presents the results of the OLS regression analysis on the effect of different scenarios/institutional profiles on managers' appraisal of market attractiveness. Further to the presentation of the coefficient estimates for each model, we also estimate and present the predictive margins of the direct and moderating effects. Therefore, we will proceed to the assessment of our hypotheses also by drawing on the estimates of the predictive margins (Tables 5, 6, and 7), as they paint a clearer picture of the exact marginal effects and level of significance corresponding to each marginal effect.

As an initial observation, the descriptive statistics analysis indicates that Scenario 1 is the most attractive while scenario 4 is the least attractive one. Specifically, the average value of market attractiveness for Scenario 1 sample is 4.18 while for Scenario 4 sample is 3.93. Regarding Scenario 2 and Scenario 3 samples, market attractiveness average values fall in-between with 3.96 and 4.17 respectively. These values confirm our initial assumption that the managers who participated in the experiment perceive the level of institutional distance as similar to what we initially expected based on the theory.

The OLS estimates in Table 4 (Model 1) show that Scenarios 2, 3, and 4 are associated with lower market attractiveness compared to the reference category (i.e., Scenario 1), with Scenario 4 showing the largest negative coefficient ($b = -0.249$, $p < 0.001$). The marginal effects analysis (Table 5) further confirms H1, as Scenario 1 corresponds to higher marginal predictions ($ME = 4.186$, $p < 0.001$) and Scenario 4 to lower marginal predictions ($ME = 3.937$, $p < 0.001$). We therefore confirm H1. Interestingly, we observe that distance in formal institutions has a more detrimental effect on managers' appraisal of market attractiveness compared to a situation

with high distance in both formal and informal institutions. Figure 2 depicts the predictive margins corresponding to Model 1.

--- Please insert Table 5 and Figure 2 about here ---

H2 argued for a moderating (mitigating) effect of managerial international experience on the link between perceived institutional distance and market attractiveness. The results stemming from the OLS regression (Table 4, Model 2) indicate that such an effect exists, while the associated predictive margins (Table 6) further confirm H2, as international experience clearly improves the effect of all scenarios – and especially those characterized by high institutional distance. In particular, managerial international experience substantially improves managers’ perception of market attractiveness, with the largest effect size being on the effect of Scenario 3 (ME = 4.315, $p < 0.001$). In practical terms, high levels of managerial international experience exhibit a notably pronounced moderating impact on the link between Scenario 3 and Scenario 4 and perceived market attractiveness. To elaborate, in the context of Scenario 3, possessing high levels of international experience (i.e., 12.1 years on average) enhances the favorable evaluation of a foreign market by 0.32 out of 5, as compared to low levels of international experience (i.e., 4.5 years on average).¹² Similarly, in Scenario 4, this enhancement is measured at 0.23 out of 5. Figure 3 graphically presents the predictive margins of the regression analysis related to Model 2.

--- Please insert Table 6 and Figure 3 about here ---

¹² The conversion of the marginal change into a percentage is precluded by the original 1-5 Likert scale.

Finally, H3 argued for a moderating (mitigating) effect of a preference for a high commitment entry mode on the link between perceived institutional distance and market attractiveness. The results presented in Table 4 (Model 3) provide sufficient support for such a conjecture, especially when Scenarios 1, 3, and 4 are considered. Specifically, upon drawing on the associated predictive margins (Table 7), it is demonstrated that high commitment entry modes significantly improve the effect of all scenarios except Scenario 2, with the largest effect size being on the effect of Scenario 3 (ME = 4.288, $p < 0.001$). In practical terms, high commitment entry modes are characterized by a significantly pronounced moderating impact on the relationship between Scenario 3 and market attractiveness. Specifically, preference for high commitment entry modes enhances the favorable evaluation of a foreign market by 0.52 out of 5, as compared to preference for low commitment entry modes. Similarly, in Scenario 4, this enhancement is measured at 0.24 out of 5. Figure 4 depicts the predictive margins of the regression analysis related to Model 3.

--- Please insert Table 7 and Figure 4 about here ---

5 Discussion and Implications

Institutional distance is known to influence the key strategic decisions of firms, such as foreign location choice. Nevertheless, the empirical results on the links between institutional distance and choice of foreign location is still to a large extent inconclusive (Bailey, 2018; Zhang et al., 2023). In line with the calls from other scholars (cf. Brouthers, 2013; Buckley, Chen, et al., 2018; Donnelly & Manolova, 2020; Harzing, 2004), we contend that such inconclusiveness can be (at least partly) attributed to the under-researched role of managerial cognition on distance

since, as Schotter and Beamish (2013: 524) maintain, “It is ultimately a managerial decision where the firm locates its foreign operations”. Therefore, incorporating individual managers’ perceptions, preferences, biases, and experiences into the theoretical models of location and entry mode choice can improve the validity of those studies (Maitland & Sammartino, 2015a; Nielsen & Nielsen, 2011). On the other hand, despite efforts to incorporate perceptual measures of distance to explain managers’ location choice, methodological impediments have given rise to questions about the validity of the findings of perception-based measure studies, as those studies are measuring the decision-makers’ perceptions *ex post*, i.e., a certain level of ambiguity exists in relation to whether managers’ perceptions of distance have influenced the location decision, or whether the post-decision experience has influenced their perceptions (Dow & Karunaratna, 2006). To address the above gaps, we employed an EVM approach by surveying managers’ perceptions of institutional differences in conjunction with and prior to strategic decisions on foreign location choice. Moreover, we examined the moderating effect of managerial international experience and preferred entry mode on the above link (Hsu et al., 2013). Scholars argue that without incorporating managerial competences into the internationalization decisions, the findings remain incomplete (Hsu et al., 2013).

5.1 Theoretical implications

Relying on a unique experimental approach, our results show that managers’ ex-ante perception of a foreign market as distant from the home market has a negative causal effect on the attractiveness of the market. This finding complements the extant IB research and confirms that an increased liability of foreignness and uncertainty as a result of institutional distance to the new foreign market impairs its attractiveness for managers’ international expansion decisions (García-Canal & Guillén, 2008; Håkanson & Dow, 2012; Ojala, 2015). On the other hand, ease

of learning about the market's institutions and the subsequent lower level of uncertainty make close markets more attractive for the decision makers, as it means they can more easily transfer their knowledge of their home market (Chelariu et al., 2006; Johanson & Vahlne, 1977; Luo & Peng, 1999). Subsequently, our findings challenge the existence of the "distance paradox", suggesting a negative relation between distance and market attractiveness, meaning that the paradoxical findings pointing at this stated phenomenon may well be due to methodological impediments, like a dependence on ex-post distance assessments.

Moreover, our finding also challenges previous propositions that well-developed, institutionally distant host-country environments are attractive for emerging market firms (EMFs) (James, Sawant, & Bendickson, 2020) since the latter would tend to benefit from escaping home-country institutional voids (Cuervo-Cazurra, 2016; Stoian & Mohr, 2016). Intense competition and the presence of firms with strong intangible assets can make developed countries relatively more challenging and hence less attractive for EMFs' internationalization (Deng, Jean, & Sinkovics, 2018). On the other hand, EMFs can more easily transfer those of their capabilities that are shaped in institutionally less developed home markets to institutionally close markets with similar stringent governance conditions (Lu et al., 2014). In fact, EMFs' learning capabilities developed in home countries that are characterized by weak institutional settings can be used as leverage for such firms to internationalize their activities more rapidly and more effectively in equally weak institutional settings (Cuervo-Cazurra, 2016).

Interestingly, although we had not hypothesized this, we observed that distance in formal institutions has a more detrimental effect on managers' location choice (market attractiveness) compared to situations with high distance in both formal and informal institutions (Scenario 4) or high distance in formal and low distance (Scenario 2) in informal institutions. In other words,

when information on the two pillars of institutions is available for managers who are deciding on their firm’s location choice strategy, similarity in formal institutions is perceived as more critical in the process of appraising market attractiveness. Our results complement the proposition formulated by Peng et al. (2009) following the logic that in cross-border transactions and foreign market appraisals, institutions are juxtaposed against another set of institutions and not against the home countries’ own dynamics and idiosyncrasies. This finding also offers support for the suggestion that it is more difficult to assess the effect and importance of more tacit institutional differences, like culture and other informal institutional arrangements (Aguilera-Caracuel, Hurtado-Torres, Aragón-Correa, & Rugman, 2013; North, 1990).¹³ While confirming previous work showing the importance of ‘learning-by-doing’ in foreign market settings with diverse cultures (Barkema, Bell, & Pennings, 1996; Johanson & Vahlne, 1977; Meyer, Estrin, Bhaumik, & Peng, 2009), our findings suggest that informal institutional differences play a comparatively smaller role in the assessment of market attractiveness than do formal institutional differences. Our finding can be linked to the recent institutional developments in emerging markets and the fact that countries like China have radically improved their formal institutions in the last twenty years, experiencing the so-called institutional regime shift (Huang, Geng, & Wang, 2017). Such an improvement in the country’s formal institutions can be deemed crucial for also influencing the way managers perceive the role of formal institutions compared to that of informal institutions in the context of internationalization in general and foreign location choice in particular.

¹³ According to North (1990, p. 36), “It is much easier to describe precisely the formal rules that societies devise than to do the same for the informal ways by which human beings have structured human interaction”.

Finally, our findings shed light on the role managerial traits and preferences — specifically managerial international experience and preferred entry mode — play in shaping the link between perceived institutional distance and foreign location choice. It has been argued that without considering the context of managerial competence in the internationalization models, the findings remain incomplete (Hsu et al., 2013). Our results show that managerial international experience substantially mitigates managers' appraisal of (the lack of) attractiveness of an institutionally distant market. The direct exposure to diverse institutional contexts enables experienced managers to have a better comprehension of various regulatory frameworks, legal systems, cultural norms, and business practices, which helps to reduce uncertainty, thus mitigating the negative influence of perceived institutional distance (Perkins, 2014; Slangen & van Tulder, 2009). Moreover, experienced managers seem to have learned how to develop local business relations that enable them to access local networks and resources (Coviello & Munro, 1997; Hohenthal et al., 2014), which assists the navigation of new cultural and regulatory landscapes. In turn, this helps them alleviate the negative effects of distance on the attractiveness of new foreign markets for potential expansion. Our results also show that a preference for high commitment entry modes (such as a wholly owned subsidiary) substantially mitigate managers' appraisal of (the lack of) attractiveness of an institutionally distant market. High-resource commitment entry modes allow firms to have higher control over their operations (Kotler et al., 2019), which is instrumental in institutionally distant environments where transaction costs are high (Hernández & Nieto, 2015) and disseminating technology or other resources to a joint venture partner or a licensee can prove costly for the internationalizing firm (Hill et al., 1990). High-commitment entry modes may also provide managers with more certainty regarding their possibility to influence local operations and to respond flexibly to potential changes in the

institutional environment (Santangelo & Meyer, 2011). The strategic choice of high-control entry modes in a context where they perceive high levels of institutional distance helps managers to reduce uncertainty, which results in a higher assessment of the attractiveness of a distant market compared to managers that choose low-control entry modes.

5.2 Managerial implications

Understanding the practical implications of perceived formal and informal institutional differences between the host and home country is highly useful for decision-makers in internationalizing firms. First, our results confirm that institutional distance causes negative perceptions about markets and their attractiveness for foreign investment. Managers who perceive a foreign market as more distant are less likely to consider investing in such a location. We observed that managers' decisions are relatively more sensitive to the effect of formal institutions. Accordingly, managers should focus more on how they can mitigate the negative effects formal institutional distance has on their emotions and perceptions. Second, we found that the effect of perceived distance on market attractiveness may be mitigated by managerial international experience. Firms that are planning to make new internationalization decisions may use this knowledge to give such assignments to decision makers or to attract to their management teams such individuals with managerial international experience, so the firm can benefit from their exposure to diverse institutional environments and increased cognitive capacities in this domain. Entering foreign markets that are distant from the home market is frequently a painful process, yet it is a necessary condition for firms to achieve their strategic goals. Being capable of offsetting any negative effects stemming from institutional distance requires managers to draw on a wide range of experiential knowledge that is sourced from international settings (Rickley & Karim, 2018). Managers are therefore advised to develop their international knowledge by

tapping into international operations, be more open to international rotational jobs and tasks, or even be educated in international settings (Piaskowska & Trojanowski, 2014). Similarly, recruiting executives with extensive international exposure is another way to help towards achieving this strategic goal. Our findings also reveal that managers who prefer entry modes characterized by a relatively higher level of commitment would be more confident in better controlling their operations and hence reaping the potential benefits presented to them in institutionally distant environments (Kotler et al., 2019). This confirms the view that the internationalization decisions on location and entry mode are interdependent (Beugelsdijk, Nell, et al., 2017; Peng & Meyer, 2011), such that when managers assess the attractiveness of new foreign markets in relation to their perceived institutional distance, they likely do so depending on the entry mode they have in mind for the foreign operations. Finally, we observed that foreign locations characterized by high formal but low informal institutional distance to the Chinese market are assessed as less attractive than the converse (those characterized by low formal and high informal distance). This finding becomes even more interesting when assessing the moderating effects of international experience and preferred entry mode, as both moderators do not exhibit markedly different marginal effects concerning the attractiveness of foreign locations. This finding reconfirms the complexity of institutional dynamics, suggesting that the interplay between formal and informal institutions in shaping perceptions of foreign market attractiveness is more intricate than one may assume. This observation calls for a reassessment of 'taken for granted' assumptions, stressing the need for a more nuanced understanding of both formal structures and informal cultural settings when formulating international strategies. Furthermore, the similar marginal effects of managerial international experience and preferred entry mode on market attractiveness as observed in our results emphasizes the need for a more sophisticated

approach towards assessing market attractiveness and location choice. Firms equipped with extensive managerial international experience and having flexibility in terms of entry mode choice may need to recalibrate their strategies, acknowledging that such traditionally important firm-specific resources and strategic tools may not always help the firm alleviate institutional frictions in relation to accomplishing certain international strategies.

5.3 Limitations and future avenues

Like all other studies, our study has limitations. First, although we have taken extensive measures to ensure an appropriate sample of respondents experiencing a realistic scenario, due to the experimental nature of this research, we need to be cautious about whether the behaviors in the experiment accurately reflect how decision makers are likely to behave in general. Second, we appreciate the fact that many strategic decisions are made by a top management team rather than by one individual manager. However, we should point out that in this study, we designed the scenarios in relation to an SME where most decisions are presumably made by an individual manager/CEO (Zor, Linder, & Endenich, 2019). Future research may examine team-based decision making, including the attributes and heterogeneities of the team and the group dynamics of decision making. Third, in addition to managers' experience we encourage future research to include other individual biases and cognitive attributes in the studies of distance which can enrich our understanding of managerial cognitive processes. Fourth, in line with previous studies, we used national culture as the proxy for markets' informal institutions. We described and balanced each market's informal institutions based on Hofstede's (Hofstede, 1980) definitions and descriptions of the four original dimensions of national culture. However, we are aware of the increasing criticism Hofstede's (1980, 2001) framework has been receiving in relation to theoretical and methodological issues (see, e.g., McSweeney, 2002; Spector, Cooper,

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2
3 & Sparks, 2001). Nonetheless, this framework is still among the most influential (Kirkman,
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5 Lowe, & Gibson, 2006; Oyserman, Coon, & Kemmelmeier, 2002), as there is extensive evidence
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7 attesting to the applicability and validity of Hofstede's national culture scores (Magnusson,
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9 Baack, Zdravkovic, Staub, & Amine, 2008). This is further confirmed by the work of
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11 Beugelsdijk, Maseland, and van Hoorn (2015), who analyzed the scores of societies on cultural
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13 dimensions using a cohort analysis and found that although the absolute scores of societies on
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15 cultural dimensions have changed slightly over time, relative differences have remained the
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17 same. Fifth, we encourage future studies to explore how vignettes are designed and formulated to
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19 capture formal and informal institutional differences. For example, one of the elements we
20
21 integrated into the scenarios is the strength of ties a firm has with government agencies, local
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23 social networks, and local communities in the target market. With this integrated element in the
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25 scenarios, our intention was to describe to managers a situation where informal networks (which,
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27 in our view, are embedded in the wider informal institutions) are either important or not
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29 important in the host market. However, the formulation of this sentence in the given scenarios
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31 implied the firm had weak or strong ties with informal networks in the host market.¹⁴ We
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33 acknowledge that this could have been formulated in a clearer manner. Yet, despite the
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35 aforementioned oversight of ours, we contend that the scenarios still enabled the respondents to
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37 evaluate the appeal of foreign markets and that including this sentence has not significantly
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39 impaired the intended meaning of our scenarios. This is because each scenario's overarching
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41 depiction accurately portrays a setting where formal and informal institutions, whether proximate
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43 or distant, are present. Finally, we adopted the institutional economics approach to create four
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45 institutional profiles/scenarios that were balanced in relation to the home market including
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56 ¹⁴ We are grateful to one anonymous reviewer for bringing this issue to our attention.
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comprehensible elements of formal and informal institutions to ensure representativeness (Aiman-Smith et al., 2002). Future research could contribute by designing vignettes using limited indicators to represent certain specific elements of formal and informal institutions, as this would make it possible to isolate the influence of specific elements on managerial perceptions of distance and their causal effect on internationalization decisions.¹⁵

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¹⁵ We are grateful to one anonymous reviewer for raising this issue.

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TABLES

Table 1. Institutional Profiles in scenarios

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Informal institutions	Close ^a	Close	Distant	Distant
Formal Institutions	Close	Distant	Close	Distant

Note: ^aDistance (similarity/dissimilarity) to China (home market).

Table 2. Description of variables

1	Market attractiveness	The average score of the following three Likert-type questions: a) To what extent would you describe the market overall as an opportunity? b) To what extent would you label the venture as something positive? c) To what extent would you feel the future looks promising for selling the product in this market?
2	Scenario 1	This scenario depicts a target market with an institutional profile very similar to that of the manager's home market (i.e., China)
3	Scenario 2	This scenario depicts a target market that is very similar in terms of informal institutions but very dissimilar in terms of formal institutions in relation to China
4	Scenario 3	This scenario depicts a target market that is very similar in terms of formal institutions but very dissimilar in terms of informal institutions in relation to China
5	Scenario 4	This scenario depicts a target market with an institutional profile very dissimilar to that of China
6	International experience	The manager's number of years of international experience
7	Entry mode	The manager's preferred mode of entry in the foreign market. This is a binary variable taking the value 1 in the case of a high commitment entry mode (i.e., sales offices or manufacturing subsidiaries) and the value 0 in the case of a low commitment entry mode (i.e., direct exporting; sales agent, or licensing / franchising).
8	Age	The age of the manager at the time of the survey

Table 3. Pairwise correlations and descriptive statistics

	1	2	3	4	5	6	7	8
1. Market attractiveness	1.00							
2. Scenario 1	0.10	1.00						
3. Scenario 2	-0.08	-0.33	1.00					
4. Scenario 3	0.09	-0.33	-0.33	1.00				
5. Scenario 4	-0.10	-0.33	-0.33	-0.33	1.00			
6. International experience	0.09	0.03	0.03	-0.02	-0.04	1.00		
7. Entry mode	0.15	-0.07	-0.05	0.14	-0.02	0.05	1.00	
8. Age	0.13	0.01	0.02	-0.04	0.01	-0.20	-0.05	1.00
Alpha (α)	0.76	-	-	-	-	-	-	-
Mean	4.06	0.25	0.25	0.25	0.25	8.82	0.67	34.37
Std. Dev.	0.72	0.43	0.43	0.43	0.43	4.30	0.47	6.47
Min	1.33	0.00	0.00	0.00	0.00	1.00	0.00	26.00
Max	5.00	1.00	1.00	1.00	1.00	17.00	1.00	58.00

Table 4. Ordinary Least Squares (OLS) Regression Analysis

	Model 1			Model 2			Model 3		
Dependent variable: Market attractiveness	Coef.	p-val.	s.e.	Coef.	p-val.	s.e.	Coef.	p-val.	s.e.
Scenario 2	-0.232	0.000	(0.003)	-0.229	0.000	(0.001)	-0.094	0.000	(0.004)
Scenario 3	-0.034	0.069	(0.012)	-0.032	0.102	(0.014)	-0.281	0.000	(0.011)
Scenario 4	-0.249	0.000	(0.002)	-0.249	0.000	(0.003)	-0.275	0.000	(0.001)
International experience	0.083	0.139	(0.042)	0.050	0.104	(0.022)	0.081	0.128	(0.039)
Entry mode	0.216	0.115	(0.098)	0.213	0.109	(0.094)	0.203	0.000	(0.003)
Scenario 2 x International experience				-0.049	0.196	(0.030)			
Scenario 3 x International experience				0.109	0.005	(0.014)			
Scenario 4 x International experience				0.065	0.005	(0.009)			
Scenario 2 x Entry mode							-0.217	0.000	(0.009)
Scenario 3 x Entry mode							0.317	0.001	(0.022)
Scenario 4 x Entry mode							0.039	0.016	(0.008)
Age	0.116	0.118	(0.053)	0.121	0.110	(0.054)	0.125	0.108	(0.055)
Constant	4.041	0.000	(0.062)	4.044	0.000	(0.059)	4.049	0.000	(0.001)
Observations		208			208			208	
R-squared		0.076			0.083			0.090	

Note: Robust standard errors in parentheses; p-values in italics; two-tailed tests; standardized coefficients are reported; Scenario 1 (close – close) acts as the reference category for Scenario 1 – Scenario 4.

Table 5. Predictive margins for H1 (Scenario 1 - Scenario 4)

	Marginal effect	Delta-method Std. Err.	t / z	P>t	95% Confidence interval	
Scenario 1	4.186	0.004	1131.250	0.000	4.175	4.198
Scenario 2	3.955	0.002	1606.470	0.000	3.947	3.963
Scenario 3	4.153	0.008	490.290	0.000	4.126	4.180
Scenario 4	3.937	0.004	1021.500	0.000	3.925	3.949

Table 6. Predictive margins for H2 (Scenario 1 - Scenario 4)

	Marginal effect	Delta-method Std. Err.	t / z	P>t	95% Confidence interval	
Low international experience						
Scenario 1	4.137	0.021	201.190	0.000	4.072	4.203
Scenario 2	3.958	0.011	371.480	0.000	3.924	3.992
Scenario 3	3.997	0.012	332.260	0.000	3.958	4.035
Scenario 4	3.824	0.012	313.400	0.000	3.785	3.863
High international experience						
Scenario 1	4.238	0.024	177.920	0.000	4.162	4.314
Scenario 2	3.960	0.007	592.050	0.000	3.939	3.982
Scenario 3	4.315	0.016	266.940	0.000	4.263	4.366
Scenario 4	4.054	0.015	279.200	0.000	4.008	4.100

Table 7. Predictive margins for H3 (Scenario 1 - Scenario 4)

	Marginal effect	Delta-method Std. Err.	t / z	P>t	95% Confidence interval	
Low commitment entry mode						
Scenario 1	4.049	0.001	3897.900	0.000	4.046	4.052
Scenario 2	3.955	0.003	1130.690	0.000	3.944	3.966
Scenario 3	3.768	0.011	355.040	0.000	3.734	3.801
Scenario 4	3.774	0.002	2195.700	0.000	3.768	3.779
High commitment entry mode						
Scenario 1	4.252	0.004	1133.040	0.000	4.240	4.264
Scenario 2	3.941	0.008	471.160	0.000	3.915	3.968
Scenario 3	4.288	0.009	488.610	0.000	4.260	4.316
Scenario 4	4.017	0.003	1179.050	0.000	4.006	4.027

FIGURES

Figure 1. Conceptual model

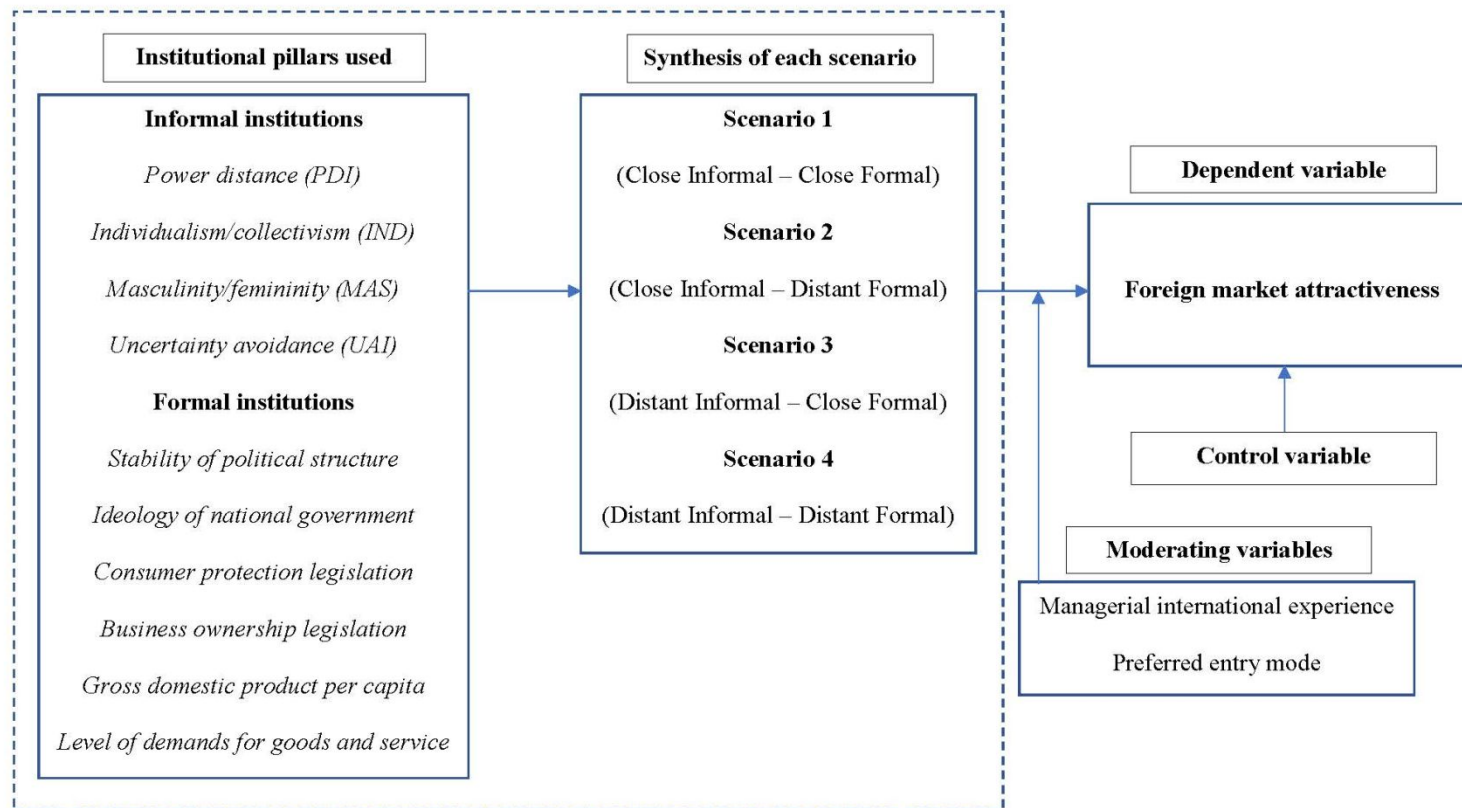


Figure 2. Predictive margins of Scenarios 1 – 4 on market attractiveness (H1)

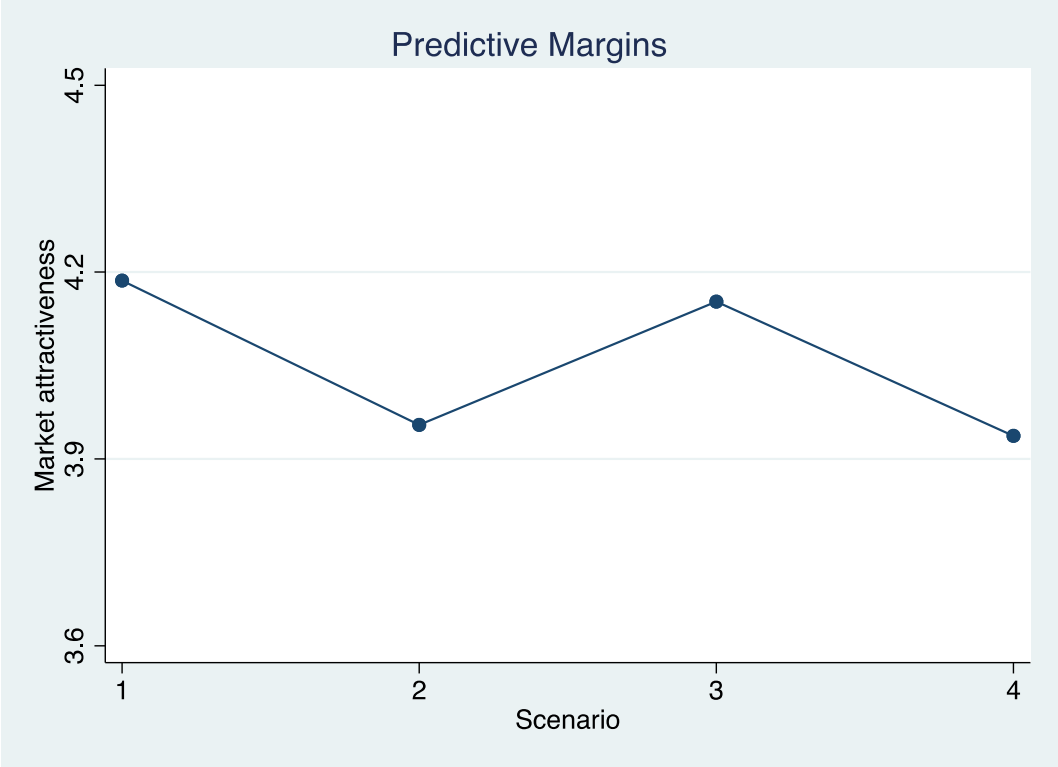


Figure 3. Predictive margins of Scenarios 1 – 4 on market attractiveness for low and high international experience (H2)

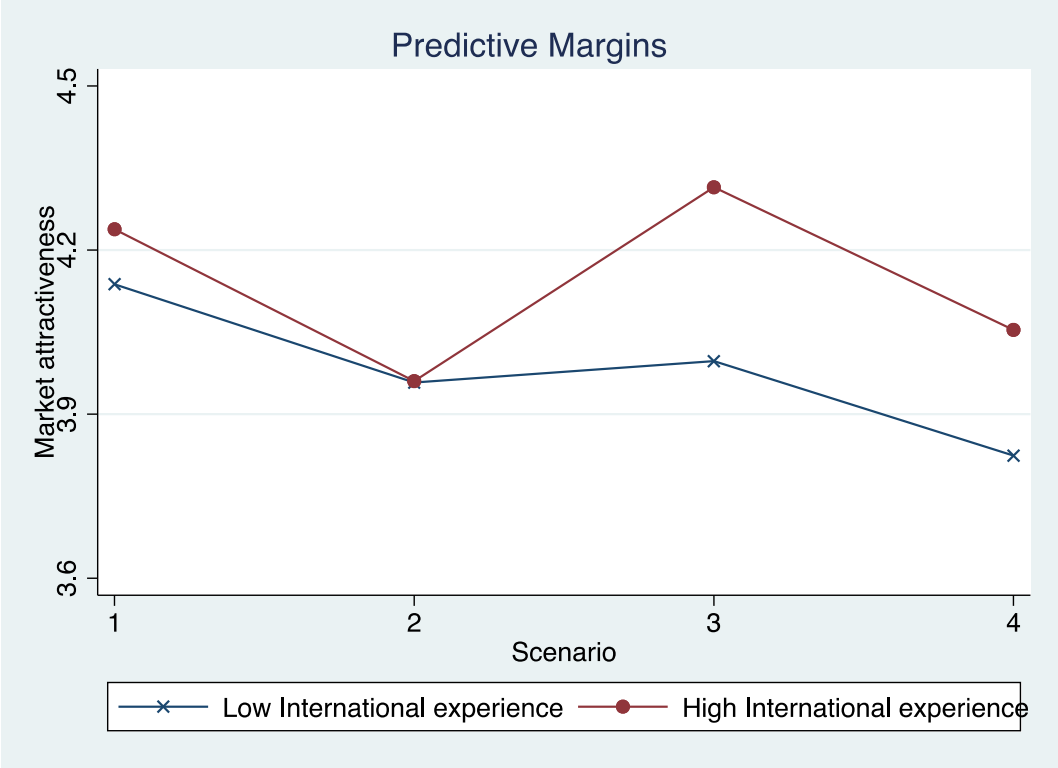
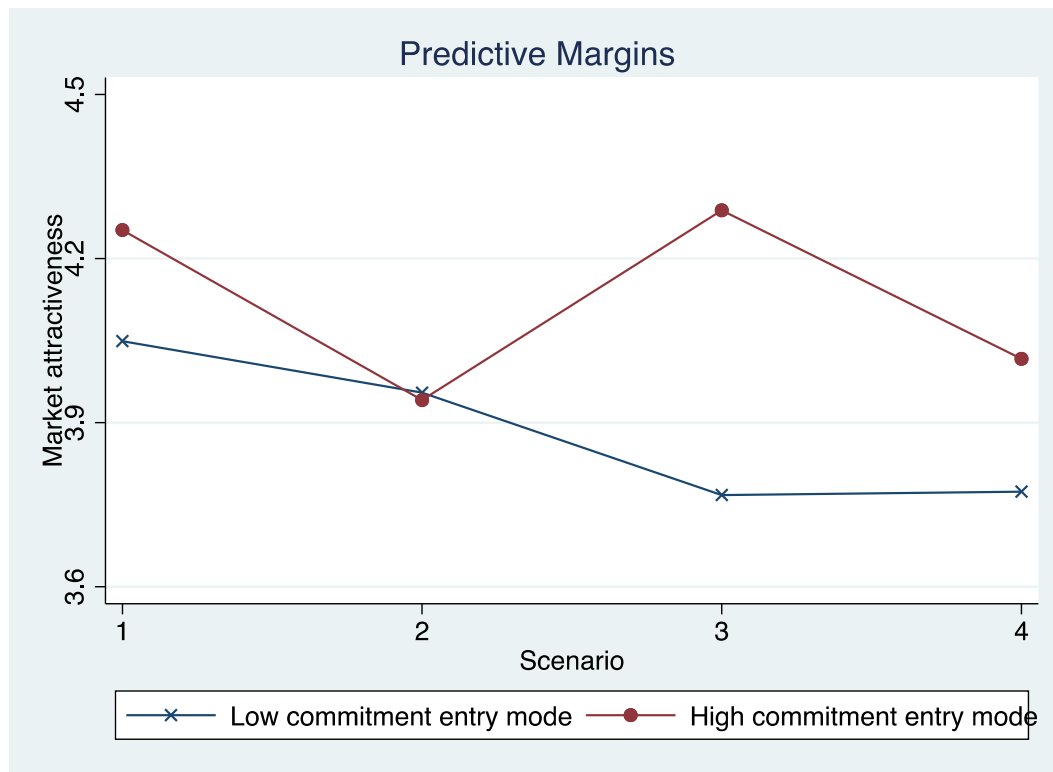


Figure 4. Predictive margins of Scenarios 1 – 4 on market attractiveness for low and high commitment entry mode (H3)



Web appendix

Table A1: Perception-based measure studies of distance

Authors	Data collection	Independent variable	Operationalization of independent variable	Dependent variable(s)
Klein & Roth (1990)	Survey	Psychic distance	The degree to which the foreign market [<i>that they had already internationalized to</i>] was perceived similar or different to the home market	Export channel structure
Evans and Mavondo (2002)	Survey	Psychic distance	The degree to which the foreign market [<i>that they had already internationalized to</i>] was perceived similar or different to the home market	Organizational performance
Sousa and Bradley (2005)	Survey	Psychic distance	The degree to which the home country was perceived to be different from or similar to the foreign country [<i>that they had already internationalized to</i>]	International Marketing strategy
Ellis (2008)	Survey	Psychic distance	The degree to which the foreign markets [<i>that they had already internationalized to</i>] was perceived similar or different to the home market	Foreign market entry sequence
Evans, Mavondo, and Bridson (2008)	Survey	Psychic distance	The degree to which the foreign market [<i>that they had already internationalized to</i>] was perceived similar or different to the home market	Entry strategy, Retails strategy, Organizational performance
Child, Rodrigues, and Frynas (2009)	Interview	Psychic distance	The degree to which the foreign market [<i>that they had already internationalized to</i>] was perceived as different from the home market	Internationalization
Sousa and Lages (2011)	Survey	Psychic distance	The degree to which the home country was perceived to be different from or similar to the foreign country [<i>that they had already internationalized to</i>]	Marketing strategy adaptation
Azar and Drogendijk (2014)	Survey	Psychic distance	The degree to which the foreign market that [<i>they had already internationalized to</i>] was perceived similar or different to the home market	Innovation
Puthusserry, Child, and	Interview	Psychic distance	The degree to which the foreign market [<i>that they had</i>	Internationalization

Rodrigues (2014)			<i>already internationalized to]</i> was perceived as different from the home market	
Kraus, Ambos, Eggers, & Cesinger (2015) [†]	Choice experiment	Psychic distance	Manager's perception of differences regarding cultural, economic and political differences between the home and target countries	Entry mode
Baack, Dow, Parente, & Bacon (2015) [†]	Choice experiment	Psychic distance	Manager's perception of differences in language, culture, political systems, level of education, level of industrial development, etc. between the home and target countries	Entry mode
Yan, Hu, and Liu (2020)	Interview	Psychic distance	The degree to which the foreign market [<i>that they had already internationalized to]</i> was perceived as different from the home market	Foreign location choice

[†]These studies measure the effect of psychic/perceived distance *ex-ante*.

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Table A2: Constructs and items used in scenarios

Informal institutions**Culture***Power distance (PDI)*

Degree of inequality among the people

Salary range between the highest and lowest paid in organizations

Importance of equality before the law

Individualism/collectivism (IND)

Respect for individual freedom

Recognition of the right to privacy

Freedom of the press

Masculinity/femininity (MAS)

Importance of caring for others

Importance of material success

Degree to which women are expected to be assertive and ambitious

Uncertainty avoidance (UAI)

Openness to change and innovation

Tolerance of differences (i.e., religious, political, and ideological)

Reliance on rules to govern behavior

Formal Institutions

Stability of political structure

Ideology of national government

Consumer protection legislation

Business ownership legislation

Gross domestic product (GDP) per capita

Level of demands for goods and service

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FULL TEXT OF SCENARIOS

Standard Introduction

Assume you are a new managing director of a Chinese medium-sized company (with 50 employees and an average annual revenue of 150 million Yuan) operating in the IT industry. It is headquartered in Beijing. The company was established five years ago and is expanding rapidly, with a 10 percent growth rate. The company had successful experience of overseas business last year. Therefore, the company is seeking other potential foreign markets in which to sell its product. This expansion will cost money and the company requires financing for such a venture.

Scenario/Institutional profile 1

The target country has a relatively stable political structure, and its government system is based on one dominant party. The country’s consumer market is large and complex, and it is difficult to keep up with consumer protection and property protection. The target market is a fast-growing economy with an estimated average GDP of 9,000 USD (according to the 2018 data). The level of household consumption expenditure (percentage of GDP) in this market has increased substantially in recent years but still has a certain distance to approach the level of developed countries.

The target market is characterized by a relatively low degree of equality among people and unbalanced salary payments in organizations. In the past few years, the legal system has been gradually developed and strengthened, but the phenomenon of ‘equality before the law’ is still not the primary concern in the society. People are generally not highly concerned about differences (e.g. religious, political, and ideological) and are not specifically reliant on rules to govern behavior. Individual freedom, the right to privacy, and freedom of the press are not highly important or respected. There is a high level of openness to technological change and innovation in the market. Material success is relatively important. Subject to the continuation of tradition in the country's history, women's status is relatively low. The company has relatively strong ties with government agencies, local social networks, and local communities in the target market.

Scenario/Institutional profile 2

The target market has a very stable political structure, with a pluralist governmental system based on a majority vote. Consumer and property rights are highly protected in the market.

The target market is a developed economy with an estimated average GDP of 43,000 USD (according to the 2018 data). The level of household consumption expenditure (percentage of GDP) in this market is very high.

The target market is characterized by a relatively low degree of equality among people and unbalanced salary payments in organizations. In the past few years, the legal system has been gradually developed and strengthened, but the phenomenon of 'equality before the law' is still not the primary concern in the society. People are generally not highly concerned about differences (e.g. religious, political, and ideological) and are not specifically reliant on rules to govern behavior. Individual freedom, the right to privacy, and freedom of the press are not highly important or respected. There is a high level of openness to technological change and innovation in the market. Material success is relatively important. Subject to the continuation of tradition in the country's history, women's status is relatively low. The company has relatively strong ties with government agencies, local social networks, and local communities in the target market.

Scenario/Institutional profile 3

The target market has a relatively stable political structure, and its government system is based on one dominant party. The country's consumer market is large and complex, and it is difficult to keep up with consumer protection and property protection. The target market is a fast-growing economy with an estimated average GDP of 9,000 USD (according to the 2018 data). The level of household consumption expenditure (percentage of GDP) in this market has increased substantially in recent years but still has a certain distance to approach the level of developed countries.

The target market is characterized by a high degree of equality among people and fair salary payments in organizations. Equality before the law is highly appreciated. People are generally concerned about differences (e.g. religious, political, and ideological) and are highly reliant on rules to govern behavior. Individual freedom, the right to privacy and freedom of the press are very important and highly respected. There is a relatively low level of openness to technological change and innovation in the market. Material success is not

very important and women in the market are not expected to be assertive and ambitious. The company has relatively weak ties with government agencies, local social networks, and local communities in the target market.

Scenario/Institutional profile 4

The target market has a very stable political structure, with a pluralist government system based on a majority vote. Consumer and property rights are highly protected in the market. The target market is a developed economy with an estimated average GDP of 43,000 USD (according to the 2018 data). The level of household consumption expenditure (percentage of GDP) in this market is very high.

The target market is characterized by a high degree of equality among people and fair salary payments in organizations. Equality before the law is highly appreciated. People are generally concerned about differences (e.g. religious, political, and ideological) and are highly reliant on rules to govern behavior. Individual freedom, the right to privacy, and freedom of the press are very important and highly respected. There is a relatively low level of openness to technological change and innovation in the market. Material success is not very important, and women in the market are not expected to be assertive and ambitious. The company has relatively weak ties with government agencies, local social networks, and local communities in the target market.

Pre-Test

To confirm the validity of our approach, we first pre-tested UK-adapted version of scenarios using a sample of 149 under/postgraduate and PhD students from a UK-based university (March-May, 2018). Here, we considered the UK as the home market. We initially identified UK firms' main target markets in both developed and developing countries and extracted secondary data regarding each country's formal and informal institutions. We then selected as many countries as potentially fitted our scenarios (at least two countries for each scenario). The analysis of the pre-test (student sample) study confirmed our core expectations. First, regarding the assessment of the attractiveness of a foreign location, we proceeded to a confirmatory factor analysis where after the aforementioned four components had been applied, only one factor was produced (eigenvalue = 2.811, Cronbach's alpha = 0.899, AVE = 0.785). Second, with regard to the scenario analysis, we proceeded to a regression analysis where we tested the impact of each of the four scenarios on the aforementioned construct.

The regression results on the sample of 149 students confirmed our initial expectations, that is distance is negatively related to a foreign market attractiveness. Finally, we proceeded to a comparative analysis of the main construct across all four scenarios. Considering that we are dealing with a comparative analysis of mean values of more than two scenarios (Martín-Alcázar, Romero-Fernández, & Sánchez-Gardey, 2008; Osman-Gani & Tan, 2002; Riefler, Diamantopoulos, & Siguaw, 2012), we decided to apply a one-way Analysis of Variance (ANOVA). The results showed that significant differences in the mean scores exist for all four scenarios ($F = 30.49$, $p\text{-value} = 0.000$). Overall, our student sample pre-test study provided confirmation of our initial conjectures, thus leading us to the next step of replicating it in the context of Chinese managers.