Added distance, entry mode choice, and the moderating effect of experience: The case of British MNEs in emerging markets

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Distance has been viewed as a crucial determinant of the internationalization strategy of firms. Nonetheless, in recent years, there has been considerable debate with regards to, first, the type of distance considered most important when it comes to explaining the internationalization strategy of firms, and, second, how distance should be measured. In our study, we argue that a developed market multinational enterprise (DMNE)’s decision regarding the mode of entry into an emerging market (EM) will be affected by the geographic and administrative distance between the locations in which the MNE has previously held operations. Drawing our arguments on transaction costs economics (TCE) and Internalization Theory, we propose that, for low and high geographic and administrative distance, DMNEs will opt to enter EMs via a wholly owned subsidiary, while for moderate levels of distance via a joint venture. Furthermore, we argue that DMNEs’ previous international experience in EMs will have a positive effect on the suggested U-shaped relationship, alleviating the negative effects associated with the coordination and knowledge dissipation costs incurred as a result of the level of distance. Our study contributes to existing literature both theoretically—notably via the examination of under-researched facets of distance on entry mode choice—and also methodologically—through the adoption of a novel methodological approach in measuring distance. We test our hypotheses against a data set comprising 316 entries of FTSE 250 British MNEs in 39 EMs spanning the period 1971–2010.

KEYWORDS
added administrative distance, added geographic distance, emerging markets, foreign market entry, international experience

1 | INTRODUCTION

The decision as to whether an MNE will enter a foreign market via joint venture (JV) or as a wholly owned subsidiary (WOS) has been in the spotlight of International Business (IB) research for a number of years (e.g., Brouthers, 2002; Chen & Hennart, 2002; Guillén, 2003; Makino & Neupert, 2000; Yiu & Makino, 2002). Despite the growing interest and volume of research on this particular study stream, there remain unexamined or inconclusive research questions, the study of which may further enhance our knowledge (Hennart & Slangen, 2015). This study extends our understanding of the role of distance in the entry mode decision of developed market multinational enterprises (DMNEs) in the context of emerging markets (EMs). In this article, taking a cue from advances in IB, we reexamine and reconceptualize the role of distance in the internationalization process (Hutzschenreuter, Voll, & Verbeke, 2011).

The traditional view in IB research has examined the role of distance as a rather monotonic dimension, simply involving a source (home) and a recipient (host) country. However, more recent developments have shown that firm internationalization comprises a much more complex and multidimensional process, notably involving added levels of distance with regards the steps (investments) to be adopted, as decided upon by an MNE (Hutzschenreuter & Voll, 2008). As such, and contrary to the conventional wisdom, we treat the distance of a single expansion step as the MNE distance to the closest existing subsidiary, as opposed to a direct distance to the MNE headquarters.
We focus on two traditionally important facets of distance—that is, geographic and administrative (added) distance—and accordingly argue that both types of added distance form a quadratic (U-shaped) relationship with the foreign entry mode choice (WOS vs. JV). The two facets of distance—geographic and administrative—are among the key distance factors influencing the decision to venture into an overseas market. Geographic distance includes physical distance between countries, the existence or lack of borders between countries, and differences in time zones and climates, etc., resulting out of distance or proximity between countries. Administrative distance includes similarities or differences in the way tasks are performed in public and private institutions in order to accomplish a piece of routine related to the smooth functioning of firms’ operations in host countries, the existence or lack of trading blocs, the existence or lack of common currency as a medium of trade, and political camaraderie/hostility.

We also argue that DMNEs' international experience in EMs is likely to act as a facilitator, thus providing the appropriate knowledge and capabilities to firms aiming at entering foreign markets through WOS as opposed to the JV mode of entry. Accordingly, we argue that the aforementioned quadratic (U-shaped) relationship will be positively moderated by the level of DMNEs' international experience in EMs.

Our study thus addresses two research questions, as follows: (a) How does the added administrative and geographic distance affect a DMNE’s decision to enter into a foreign market via WOS as opposed to the JV mode in the context of EMs? and (b) How does international experience in EMs affect the relationship between added administrative/geographic distance and a DMNE’s decision to enter into a foreign market via WOS as opposed to the JV mode in the context of EMs? We answer these questions by developing hypotheses based on transaction costs economics (TCE) and internalization theories, and through the employment of a binomial logit regression estimation against a data set composed of 316 entries of FTSE 250 British MNEs in 39 EMs over a 40-year period spanning 1971–2010.

The article is structured as follows: Sections 2 and 3 provide a theoretical rationale on the effect of distance on firm internationalization and entry mode choice, respectively; Section 4 proceeds to the hypothesis development; Section 5 describes the data sources, conceptualization of our variables and methodology; Section 6 presents the findings; Section 7 discusses the implications for theory and practice; finally, the article concludes with limitations and avenues for future research.

2 THE ROLE OF DISTANCE IN FIRM INTERNATIONALIZATION

The internationalization process includes crossing the boundaries of the firms’ home and setting up operations overseas. The setting up of overseas operations is influenced by a number of factors, with distance considered by IB researchers as a key factor in the literature (Chari & Shaikh, 2016; Ellis, 2008; Hutzschenreuter, Kleindienst, & Lange, 2016; Popli & Kumar, 2015; Shenkar, 2001; Tihanyi, Griffith, & Russell, 2005; Williams & Grégoire, 2015). Some explanations of foreign direct investment (FDI), such as the ownership, location and internationalization paradigm (Dunning, 2000) and the stages model of internationalization (Johanson & Vahlne, 1977), take explicit account of the distance factor. The central argument stemming from both theories is that, first, proximity adds to the location advantages for an MNE, thereby facilitating its decision to invest, and, second, it presents an efficient way to mitigate the effects of liability of foreignness (LOF); that is, all of the additional costs a firm operating in an overseas market has to incur when compared to a local firm (Zaheer, 1995).

Although the concept of distance in IB has been traditionally connected to cultural differences—and, consequently, the difficulties that firms encounter during the internationalization process (Barkema, Bell, & Pennings, 1996; Drogejndijk & Slagen, 2006; Hofstede, 2001; Hutzschenreuter et al., 2011; Kogut & Singh, 1988; Tihanyi et al., 2005)—more recent developments in IB research have introduced and highlighted the equally important role other facets of distance play in terms of explaining several aspects of firm internationalization. Accordingly, distance concepts, including those of geographic (Ragazzino, 2009), institutional (He, Brouthers, & Filatotchev, 2013), or administrative (Berry, Guillén, & Zhou, 2010), or even combinations of different distance measures (Ghemawat, 2001), such as the CAGE (Cultural, Administrative, Geographic and Economic distance) framework, have been introduced and empirically examined in the context of firm internationalization and its performance outcomes (Hutzschenreuter, Kleindienst, & Lange, 2014).

2.1 Reconceptualizing distance as a measure in IB research

A trivial aspect of distance in the context of IB literature is the method of assessing and measuring the actual distance in the firm internationalization process. That being said, it can be argued that most of the existing studies examining firm internationalization in general, and foreign entry mode choice in particular, tend to adopt a “static” rather than a “dynamic” approach in their attempts to explain a firm's international expansion path (Hutzschenreuter & Voll, 2008). In other words, most studies focus on simple dyadic distances between the home and host country of investment, thus neglecting the fact that MNEs are organizations that are simultaneously active in multiple geographic locations. There are two important implications associated with this approach: first, entry into a new country does not imply that the most optimal calculated distance is that between the home location and the host location; instead, firms may have been previously operating in more proximate locations than those of the home country, meaning that the actual distance is less significant than the anticipated one; second, expansion into more than one country in a given period of time (e.g., a year) implies that additional pressure is placed on the firm since an accumulative number of “added distances” is likely to increase the LOF, particularly in short windows of time.

For the aforementioned reasons, we argue that the concept of added distance adds considerable value in terms of efficiently assessing the effect of distance on the firm’s internationalization process. Added distance in a firm’s expansion path relates to the smallest of the distances between a newly entered country and the countries in which an MNE already has operations (Hutzschenreuter & Voll, 2008).
2008). We argue that this conceptualization of distance fits with our attempt to assess the role of distance on the foreign market entry mode choice of British MNEs in EMs.

3 | LITERATURE REVIEW ON DISTANCE AND FOREIGN ENTRY MODE CHOICE

In terms of the effect of distance on foreign market entry mode choice, the literature has been less informative. According to a recent review of the literature on the concept of distance in IB research, as conducted by Hutzschenreuter et al. (2016), it is suggested that the literature be broken down into those studies focused on the role distance plays with regards its effect on the degree of equity or entry mode (i.e., WOS vs. JV), as well as the choice of establishment (i.e., greenfield vs. acquisition). The majority of studies examining the relationship between distance and foreign market entry mode choice have focused on the concept of national culture, or more systemically on that of cultural distance (e.g., Agarwal, 1994; Brouthers & Brouthers, 2001; Kogut & Singh, 1988; Makino & Neupert, 2000; Slanger & van Tulder, 2009; Tihanyi et al., 2005). In terms of findings, a number of studies have come to recognize that cultural distance is associated with a greater likelihood to enter foreign markets via JV over WOS (Dow & Ferencikova, 2010; Hennart & Larimo, 1998), while other studies find a contrasting result linking cultural distance with entry via WOS (Chang, Kao, Kuo, & Chiu, 2012); conversely, other studies find cultural distance to have no impact on entry mode choice whatsoever (Slanger & van Tulder, 2009). The assumption that this relationship seems to be rather inconclusive is reinforced by the fact that other studies have found that the relationship between cultural distance and the choice of market entry (JV vs. WOS) is quadratic (inverted U-shape) (Wang & Schaan, 2008).

The substantially greater focus of extant research on examining the relationship between cultural distance and entry mode choice has been documented in recent review studies (Canabal & White, 2008). Although culture is undeniably an important country-level factor shaping the entry mode choice decision of MNEs, other forms of distance, such as administrative (and/or institutional), geographic and economic, are equally important in shaping this decision (Ghemawat, 2001). With regards the role of institutions and the impact of their quality on entry mode choice, some studies have adopted a unidimensional approach to examining the aforementioned relationship, focusing on the quality of the institutional context within the host country only (e.g., Arslan, Tarba, & Larimo, 2015; Cui, Jiang, & Stening, 2011). However, the decision-making process with regards an MNE’s entry mode choice is, by its very nature, more dynamic, and is also based on bilateral forces and the quality indicators of the home and host location. As such, the impact of country-level characteristics on entry mode choice has to take into consideration the contexts of both countries/locations. Other studies have empirically examined the relationship between institutional distance and foreign market entry mode choice. These, as in the case of cultural distance, have again been rather inconclusive with regards the relationship being formed, as they have found either a negative (Xu, Pan, & Beamish, 2004) or a positive effect on the level of ownership (Contractor, Lahiri, Elango, & Kundu, 2014).

Finally, extant research has been rather limited in terms of examining the relationship between geographic distance and choice of foreign market entry. Although spatial proximity is one of the most fundamental factors shaping the volume of trade between nations, extant research has paid considerably less attention to the role of geographic distance in terms of its effect on entry mode choice. However, extant literature has been relatively more informative in relation to the effect of geographic distance on the choice of establishment. For example, in terms of MNEs’ acquisition commitment, Ragozzino (2009) finds that U.S. MNEs prefer to acquire higher stakes in geographically close targets than in distant ones. In terms of their establishment choice, Slangen (2011) finds that MNEs tend to enter into distant foreign markets via greenfield as opposed to the acquisition establishment mode. The lack of empirical evidence with regards the relationship between geographic distance and entry mode choice is further echoed in the review study by Hutzschenreuter et al. (2016), which concludes that more research is required before conclusions can be drawn as to the role of distance (especially in consideration to under-examined forms, such as institutional, administrative, and geographic distance), and the choice of foreign market entry.

4 | HYPOTHESIS DEVELOPMENT

4.1 | The relationship between added geographic distance and foreign entry mode choice

In order to start with a simple—and at the same time, explanatory—definition, we could describe geographic distance as the great circle distance between countries affecting transportation and communication costs (Berry et al., 2010). Past research has paid comparatively more attention to aspects associated with cultural and institutional distance than to those linked with physical/geographic distance (e.g., Boeh & Beamish, 2012; Ragozzino, 2009). Interestingly, while lately we observe a considerable increase in the number of IB studies attempting to examine the important role of cultural or institutional distance on the entry mode choice, either separately (e.g., Tihanyi et al., 2005) or jointly with other forms of distance (e.g., López-Duarte & Vidal-Suárez, 2010; Slanger & van Tulder, 2009), at the same time, it becomes apparent that other forms of distance attributed to the CAGE framework are not equally represented. We argue that geographic distance acts as an equally important antecedent of foreign market entry mode choice. We also propose that, as opposed to the more traditional view that the relationship between distance and entry mode choice is either linearly negative or linearly positive, a quadratic (U-shaped) relationship exists, thus arguing that the option of a particular mode of entry over another will change rather nonmonotonically.

Drawing our arguments on the principles of TCE and internalization Theory, we argue that an MNE’s decision to enter into a foreign market via WOS or JV will be dependent on whether these markets are physically proximate or distant from the existing operations of the MNE. From an internalization Theory point of view, the challenges related to coordinating the economic activities of an MNE’s operations abroad would depend on the distance (economic, physical,
institutional, or any other form of distance) between the MNE’s existing network of operations and the established subsidiaries in the newly entered foreign location (Verbeke, 2009). From a TCE theory perspective, MNEs will be in need of developing organizational structures that will facilitate the minimization of costs and possible inefficiencies related to entry into a foreign market (Hennart, 1989; Williamson, 1979).

Accordingly, entry via WOS in geographically proximate countries will be preferred mainly owing to the comparatively better control and the relatively low costs of coordination activities of the subsidiary. The establishment of a subsidiary in a location proximate to an existing operation of the MNE can be efficiently controlled and managed due to the limited coordination costs. As such, a low added geographic distance from an existing location to a newly entered market is likely to foster entry via full ownership, as opposed to via collaborative efforts.

However, as the added geographic distance increases, the transaction costs and relative coordination activities are expected to rise. Accordingly, firms will have to cope with higher costs of coordination, distribution (logistics) and associated operational expenses, thus affecting the strategic choice of foreign market entry mode. Under such conditions, firms are likely to seek strategic partnerships, either with local actors or with other, potentially more experienced MNEs, thus leading to the assumption that entry via JV would, in general terms, be preferred as geographic distance increases.

Finally, we argue that the choice of foreign market entry of an MNE in an EM will be different between moderately distant and highly distant geographic locations. First, DMNEs entering highly distant EM locations have to cope not only with increased coordination costs but also with the idiosyncrasies and potential inefficiencies stemming from a diverse and comparatively weaker institutional environment. Ragozzino (2009), studying the effects of geographic distance on the foreign acquisition activity of U.S. firms, shows that, in culturally diverse and politically hazardous environments, acquirers tend to prefer shared over full ownership for proximate investments. In an effort to complement the aforementioned argument, we draw on Internalization Theory (Buckley & Casson, 1976; Coase, 1937) and the associated internalization advantages that facilitate the reduction of transaction and coordination costs. More specifically, it can be argued that a high geographic distance, combined with entry through JV, could potentially have detrimental effects for MNE performance, mainly as a result of the fact that home-base exploiting firm-specific advantages (FSAs) might not be perfectly secured from rival firms, whilst a potentially weak institutional regime that characterizes most EMs could also jeopardize any collaborative attempts should these not be closely monitored by the MNE and its headquarters. In order to deal with potential threats and knowledge dissipation occurrences—mainly stemming from the weak intellectual property rights protection regime that characterizes the majority of EM firms—it is likely that focus will be centered on utilizing internal knowledge channels and intrafirm knowledge sourcing in order to operate in the foreign location (Athreye, Batsakis, & Singh, 2016; Zhao, 2006). We also know from the literature that firms with a high level of FSAs are likely to operate under a sole venture mode, especially in countries characterized by high contractual risks (Agarwal & Ramaswami, 1992).

Based on the aforementioned arguments, and drawing on TCE and internalization theories, we argue that the relationship between added geographic distance and foreign entry mode choice will not be a linear one but rather quadratic. For low and high levels of added geographic distance, DMNEs would show a preference to enter an EM via full ownership (WOS), while for moderate levels of distance, a collaborative entry mode (JV) would be preferred. Accordingly, our hypothesis is developed as follows:

**Hypothesis 1:** There will be a quadratic (U-shaped) relationship between added EM geographic distance and WOS mode of entry into an EM.

### 4.2 The relationship between added administrative distance and foreign entry mode choice

Another important facet and antecedent of internationalization is the role of administrative or institutional idiosyncrasies of the host location and how these differ from the existing locations in which MNEs operate. Administrative distance relates to the differences between countries in terms of bureaucratic patterns that result from differences in, for instance, language or legal systems (e.g., Berry et al., 2010; Ghemawat, 2001; Guler & Guillen, 2010). The vast majority of arguments related to the role of administrative or institutional distance between countries, and their effect on firm internationalization, are seen to be sourced from institutional theory, which suggests that an MNE entering a new (unexplored) market will tend to imitate local firm actions in order to more efficiently adapt to the host location’s environment and thereby strengthen its market presence (Kostova & Zaheer, 1999; Yiu & Makino, 2002). A number of studies have dealt with the effect of institutional distance (e.g., Brouthers, 2002; Schwens, Eiche, & Kabst, 2011), the strengths/weaknesses of institutions in the host location (e.g., Meyer, 2001; Meyer, Estrin, Bhaumik, & Peng, 2009), governance infrastructure (e.g., Yiu & Makino, 2002), and political risk (e.g., Agarwal & Ramaswami, 1992; Delios & Henisz, 2000) on foreign entry mode choice.

We argue that, in the case of a comparatively low administrative distance, MNEs are likely to be familiar with the bureaucratic patterns and institutional idiosyncrasies of the host location, as this will be highly homogenous to another environment in which the MNEs are already operating. First, in the case of low administrative distance, there is less possibility that the MNE will not be in better position to accumulate knowledge related to regulations and the overall structure of the institutional context. The stages model of internationalization states that MNEs prefer to move to relatively proximate locations, thus utilizing their valuable experience from relatively similar institutional contexts. For example, knowledge on how to deal with bureaucracy, political uncertainty and the effects of pro-market reforms in institutionally idiosyncratic locations can be utilized in similar environments in order to more efficiently and quickly maneuver and overcome obstacles. This would lead to MNEs feeling confident and therefore demonstrating confidence within the host nation environment when operating in the form of a WOS as opposed to seeking collaborations via JV, as they find themselves capable of fighting
hurdles. Past research has shown that low political risk is associated with foreign market entry via WOS rather than via JV (Agarwal & Ramaswami, 1992; Delios & Henisz, 2000) on foreign entry mode choice.

As administrative distance increases, firms are likely to prefer collaborative modes of entry. We argue that firms experiencing a moderately high level of distance in terms of administrative procedures are likely to seek collaborative opportunities in order to lessen the negative effects and complexities that could potentially arise due to the increasing distance. This would be especially the case when the administrative distance is increasingly unfavorable. Research has shown that low governance quality in the host location is likely to drive MNEs to form JVs with local actors (Slangen & van Tulder, 2009), while such ventures are less likely to be mistreated compared to their WOS counterparts (Delios & Henisz, 2000).

Finally, we argue that the relationship between administrative distance and entry via JV will not be a continuously (linearly) increasing one; instead, we conjecture that, as distance further increases, firms will prefer to enter via a WOS mode. The theory on time compression diseconomies (Dierickx & Cool, 1989) throughout the process of international expansion (Vermeulen & Barkema, 2002) argues that the increasing uncertainty related to the expansion into countries that significantly differ from firms’ existing overseas markets is likely to lead to diminishing returns. We argue that firms can deal with local administrative complexities that arise due to the increasingly high distance, but only up to a certain extent via a JV mode of entry. After a certain point, administrative complexity will not be efficiently dealt with by collaborative efforts with local actors, as this would entail a greater level of control to the local firm, which could potentially put at risk the proprietary rights and intangible assets of the MNE. Simply put, while complexities that have arisen due to high administrative distance might be resolved, granting greater control and authority to the local firm could have detrimental effects on the MNE. For that reason, we argue that, at this stage, firms are likely to opt for the WOS mode of entry.

Based on the aforementioned argumentation, we conjecture that the relationship between the added administrative distance and foreign entry mode choice will be quadratic (U-shaped). More specifically, for low and high levels of added administrative distance, DMNEs will prefer to enter an EM via full ownership (WOS), while for moderate levels of distance, a collaborative entry mode (JV) would be preferred. We develop our hypothesis as follows.

Hypothesis 2: There will be a quadratic (U-shaped) relationship between added EM administrative distance and WOS mode of entry into an EM.

4.3 The moderating effect of the EM experience

In the IB context, international experience generally refers to the “experience that firms accrue from operating internationally” (Clarke, Tamaschke, & LIESCH, 2013). International experience has increasingly attracted the interest of the academic community, which has positioned it as a significant intangible resource (which can notably be utilized so as to produce important knowledge) of the internationalizing firm (FANG, Wade, Delios & Beamish, 2007; Mohr & Batsakis, 2014). The “international experience factor” has been long argued to play a very important role for the internationalizing firm in terms of a firm’s successful internationalization (Luo et al., 2005; Mohr & Batsakis, 2014), firm survival (Delios & Beamish, 2001; Mudambi & Zahra, 2007), and its decision on foreign market entry mode (Agarwal, 1994; Brouthers, Brouthers, & Werner, 2001; Dow & Larimo, 2009; Erramilli, 1991; Evans, Mavondo, & Bridson, 2008; Yiu & Makino, 2002).

Extant empirical studies have shown that the internationalizing firm’s level of international experience is positively related to highly controlled modes of entry in the early and late stages of internationalization (Erramilli, 1991), and consequently with choice of entry being via a WOS (Chiao, Lo, & Yu, 2010; Dow & Larimo, 2009; Yiu & Makino, 2002) as opposed to a JV. The initial argumentation for the role of international experience on a firm’s foreign mode of entry is based on the assumption that foreign market uncertainty can be mitigated only through operating in the related markets and not through the acquisition of specific information and knowledge (Johanson & Vahlne, 1977).

In the context of this study, we argue that British MNEs’ operational presence in EMs, and, thus acquired experience, will act as an important moderator, thereby alleviating the costs of the geographic and administrative distance associated with a WOS mode of entry. First, we anticipate that past experience in an EM can trigger knowledge absorption (Johanson & Vahlne, 1977), thus increasing the overall absorptive capacity of the firm (Gunawan & Rose, 2014). Given that higher geographic distance is expected to incur additional coordination, operational and communication costs for the MNE, a high level of international experience can be effectively utilized so as to mitigate the aforementioned negative effects. As a result, MNEs will not be required to proceed to synergistic modes of entry (JVs) that would eventually cause them to lose a share of their operational control. Instead, MNEs could utilize the knowledge absorbed from their previous operation in an EM and thus enter into subsequent foreign markets via a fully controlled mode of entry (WOS).

Second, we argue that experience in EMs can facilitate the internationalization process and alleviate possible problems and complexities related to its LOF (Barkema et al., 1996). Firms with high levels of experience in EMs will thus be able to mitigate any complexities associated with a high level of LOF. In general terms, DMNEs entering EMs and geographically/administratively distant countries are likely to face considerable institutional complexities. Extant research shows that a potential lack of institutional market knowledge and business market knowledge is related to the LOF and the liability of outsidership (Eriksson, Johanson, Majkgård, & Sharma, 1997). Experience in an EM can alleviate such liabilities and accordingly allow the firm to enter into other EMs with a better controlled ownership (i.e., WOS mode of entry).

Overall, we argue that firms with previous experience in EMs are likely to better cope with complexities and idiosyncrasies characterizing the host location, thus dealing more effectively with the related costs of doing business in an EM. Accordingly, experience in EMs can be perceived as an important intangible asset for the firm that can
mitigate the negative effects of coordination and knowledge dissipation costs associated with increasing levels of added geographic and administrative distance, thus lifting the U-curve. Accordingly, we formulate the following hypotheses:

**Hypothesis 3a:** Previous experience in an EM will positively moderate the U-shaped relationship between added EM geographic distance and the WOS mode of entry into an EM, such that the propensity of entry via the WOS mode for moderate and high levels of added geographic distance will be even higher when MNEs hold a high level of EM experience.

**Hypothesis 3b:** Previous experience in an EM will positively moderate the U-shaped relationship between added EM administrative distance and the WOS mode of entry into an EM, such that the propensity of entry via WOS mode for moderate and high levels of added administrative distance will be even higher when MNEs hold a high level of EM experience.

5 | DATA AND METHODOLOGY

5.1 | Data sources

For the purpose of our analysis, we required data on the following variables: MNEs undertaking overseas ventures in EMs; the year of their entry; the host nation and industry entered; and the size of the MNE measured in terms of its total employment. A preliminary search revealed little data on these lines; most literature on the topic was found to focus on FDI strategies in EMs or otherwise was seen to take a broad and generalized view of internationalization and FDI. Data from the Office of National Statistics provides only a very generalized picture of the entirety of UK FDI; no database is available of the UK firms engaged in IB in EMs, and the statistical information available on UK FDI abroad was not specific enough for the purpose of this study. This is largely as a result of the restrictions imposed by the British Data Protection Act (1998), which does not permit bodies, such as the Chamber of Commerce, to disclose this information. Consequently, the decision was made to proceed first with a list of FTSE 100 and then FTSE 250 firms. The work took several months of inspecting each company report, the company website, and other information so as to extract the data set required for our purpose. In the final analysis, a total of 134 companies were found to be engaged in FDI in EM, with a total of 316 projects. The Bureau van Dijk’s Fame database was consulted to confirm that the companies used for the study were British companies registered in the United Kingdom. We went back as far as 1971; with regards sourcing information for those companies that have engaged in FDI since 1971, information on businesses that have ceased trading is no longer available and, therefore, the study is limited to only 134 parent MNEs. In terms of the profile of MNEs included in our sample, these come from a wide variety of industries, including Automotive (e.g., MG Rover Group, Ricardo Plc), Banking and financial services (e.g., HSBC Plc, Barclays Plc), Conglomerates (e.g., Unilever Plc, Reckitt Benckiser), Electrical equipment (e.g., Dyson Plc, ARM Holdings Plc), Energy (e.g., Acteon, BP Plc, Royal Dutch Shell), Food and beverages (e.g., Cadbury’s Plc, Diageo Plc), Media (e.g., Pearson, Reuters Plc), Pharmaceuticals (e.g., Astrazeneca Plc, GlaxoSmithKline Plc), Retail (e.g., Sainsbury Plc, Kingfishers Plc, Tesco Plc, The Body Shop Plc), and Telecommunications (e.g., British Telecom Plc, Vodafone Plc), among others.

5.2 | Variables

Our dependent variable is in a dichotomous formation, taking the value “1” if entry into the EM is via a WOS, and the value “0” if the entry is via a JV. Numerous past studies have used an identical operationalization in order to predict the various antecedents of foreign market entry mode choice (Brouthers & Brouthers, 2003; Hennart & Larimo, 1998; Kaynak, Demirbag, & Tatoglu, 2007).

Our first independent variable is the added geographic distance. Traditionally, IB scholars have assigned a single-dimensional context to the distance between the source and the target country of investment; that is, until recently, the vast majority of IB empirical studies calculated and tested the actual distance between the source country (UK) and the relative target country, regardless of any potential interim investment in other countries. Hutzschenreuter and Voll (2008) and Hutzschenreuter et al. (2014) suggested a more sophisticated and accurate measure of distance, taking into consideration entries to other potentially neighboring or proximate countries. Such a measure takes into account the strategic considerations of the firm, with MNEs tending to invest in small incremental steps and in proximate locations so as to better deal with the complexities arising as a result of the LOF (Johanson & Vahlne, 1977). Therefore, we calculate added geographic distance as the geographic distance between the newly entered EM and the EM countries in which the MNE already operates, taking the smallest distance (Hutzschenreuter et al., 2014; Hutzschenreuter & Voll, 2008). For the calculation of the variable, we use data on the geographic latitude and longitude of the major city of each country (see, for instance, Hutzschenreuter et al., 2014; Zaheer & Hernandez, 2011). This data was taken from the French research center in international economics (CEPII).1 Our second independent variable, added administrative distance,2 is calculated using the same procedure as that for measuring added geographic distance, using data on administrative distances between countries provided by the Penn Lauder Centre for International Business Education and Research (Berry et al., 2010).

Our moderating variable is international experience in EM. Past research has highlighted the role that international experience plays in terms of entry mode choice (Brouthers & Brouthers, 2003; Erramilli, 1991). We previously argued that international experience in EMs will

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1The variable has been divided by 103 (thousands of kilometers).
2For the construction of this variable Berry et al. (2010) use three measures; colonizer–colonized link (whether a pair of countries share a colonial tie), common religion (percentage of population that share the same religion in the country pair), and legal system (whether a country pair shares the same legal system).
also play a moderating rather than a direct role in the relationship between added geographic/administrative distance and foreign market entry mode choice. Following previous studies (Mohr, Fastoso, Wang, & Shirodkar, 2014), we measure international experience in EMs as the total number of years a firm has operated in other EMs. Thus, our measure is an accumulated number that takes into account both the duration of operation (in years) and the number of EMs in which the MNE has operated.

Finally, we incorporate a number of control variables that we expect to have an immediate relationship with the choice of foreign entry mode. More specifically, we incorporate firm size, notably measured as the MNE’s total number of employees. Past research has shown that larger firms are likely to enter via the WOS entry mode (Agarwal & Ramaswami, 1992; Brouthers & Brouthers, 2003). This can be attributed to the fact that large MNEs have slack resources that can be utilized for the entry via a WOS entry mode. Although the sample is somewhat homogenous (FTSE firms), there are differences in terms of firm size that we expect to have an immediate effect on entry mode choice. A further control variable is the period over which foreign entry took place. Past research has used a similar measure in order to account for institutional changes likely to make the climate either more or less favorable for investment (Kaynak et al., 2007). In our study, the entry dates have three class intervals, namely pre-1990, 1990–1999, and post-2000. We therefore create three dummy variables, each corresponding to a unique period. We proceed to this categorization as the post-1990s period indicates tremendous political and economic changes in the central and Eastern European countries (post-Socialist economies) and the Asian region (China). Furthermore, the post-2000 category aims at accounting for a new wave of EM economies that have been added to this of the BRICS (Brazil, Russia, India, China, and South Africa) grouping. We also control for industry variation; more specifically, we create an industry dummy, taking the value “1” if the MNE operates in the service industry, and the value of “0” if the MNE operates in the manufacturing industry. Past scholarship has shown that differences exist between service and manufacturing firms in terms of international entry mode choices (Brouthers & Brouthers, 2003; Erramilli, 1996). Finally, we control for the region of foreign entry mode; specifically, we generate four dummy variables, each corresponding to a different geographic region (Africa and Middle East, Asia, Europe, and Latin America).

5.3 | Estimation technique

Our dependent variable is in a dichotomous formation; that is to say, it is not normally distributed. Due to the dichotomous formation of the dependent variable, applying an ordinary least squares (OLS) regression model is neither an efficient nor a feasible methodology, predominantly owing to a lack of normal distribution in the dependent variable. Instead, the adoption of a binomial logit regression analysis is preferred. For this reason, we opted for a most optimal method. Thus, we employed a binomial logit regression analysis on the basis that this provides an efficient way for estimating the probability of the occurrence of a specific event. In our case, the event is the foreign entry mode choice. Numerous past empirical studies have incorporated this estimation technique when seeking to assess foreign entry strategies (Agarwal, 1994; Brouthers & Brouthers, 2003; Hennart & Larimo, 1998; Kaynak et al., 2007). A positive value in the reported coefficients increases the probability of entry via a WOS, while a negative value increases the probability of entry via a JV.

5.4 | Multivariate assumptions

Before we proceed to the core analysis, we first needed to deal with the main multivariate assumptions related to data. In order to do this, we first calculated the variance inflation factors (VIFs) to check for multicollinearity. The highest VIF score was 4.12 for Model 2 and 4.04 for Model 4, which are recognized as well below the commonly used threshold value of “10” (Hair, Anderson, Tatham, & William, 1998), therefore indicating that multicollinearity is not a concern in this analysis. Furthermore, multicollinearity problems may also occur due to the inclusion of interaction and quadratic effects in the regression analysis. As such, we follow the technique suggested by Aiken and West (1991) and mean-centered the respective variables. This process aims at reducing nonessential ill conditioning between exploratory variables and their quadratic terms (Cohen, Cohen, West, & Aiken, 2003). Second, we are informed by the literature that, when the dependent variable is in binary formation, OLS estimates are likely to suffer from heteroscedasticity. This means that the t-statistics will be biased and also may not constrain the predicted values to lie between 0 and 1. For that reason, a logit model is preferred so that we can ease the above assumptions. In the logit model, the SEs and t-values on independent variables should be bias-free, though they could still be subject to other types of heteroscedasticity. For that reason, we use robust standard errors. Finally, in order to eliminate any remaining concern related to heteroscedasticity, we conduct the Breusch–Pagan (BP) test, which shows that there is no relationship between the independent variables of our model and the squared residuals (Prob > F = 0.7709). As such, we conclude that heteroscedasticity is not a concern for our model.

6 | EMPIRICAL FINDINGS

Table 1 presents the correlation matrix and descriptive statistics. The descriptive statistics show that, on average, UK MNEs prefer to enter EMs via a WOS mode (58%) rather than via a JV. The average level of international experience in EMs is 7.53 years, while the average size of MNEs is approximately 54,663 employees. Most UK MNEs in the study sample entered EMs during the post-2000 period (59%), whilst three-quarters of the target EM regions are Asia (51%) and Europe (24%). Finally, 60% of the MNEs sampled were found to have originated in Manufacturing while 40% were identified in the services industry.

Table 2 presents the results of the logistic regression. Model 1 tests the relationship between added geographic distance and foreign entry mode into EMs. The results indicate a negative and significant coefficient (p < 0.05) for the first-order term of added geographic distance and a positive and significant coefficient (p < 0.05) for its second-order term. The combined findings provide a
clear indication that the relationship between added geographic distance and foreign entry mode into EMs via a WOS is indeed a U-shaped relationship. We are therefore in a position to support Hypothesis 1.

Model 3 tests Hypothesis 2 and the conjectured quadratic (U-shaped) relationship between added administrative distance and foreign entry mode choice. The results provide support for our conjecture since the coefficient of the first-order term of the added administrative distance is negative and significant \( (p < 0.05) \), while the coefficient of the second-order term of added administrative distance is positive and significant \( (p < 0.05) \).

In order to test the moderating effect of international experience in EMs, we proceed to the development of interaction terms of added (geographic and administrative) distance and international experience in EMs, as well as their quadratic interaction terms. Model 2 tests the moderating effect of EM experience on the relationship between added geographic distance and entry mode choice. More specifically, the interaction between the squared term of added geographic distance and international experience in EMs is positive and statistically significant \( (p < 0.05) \), and, at the same time, the first- and second-order terms of added geographic distance coefficients retain their signs and acceptable significance levels \( (p < 0.05) \). Accordingly, Hypothesis 3a is supported. In order to better capture the effect of the interaction of added geographic distance and international experience in EMs on a WOS mode of entry, the sample was divided into three subgroups based on the level of international experience in EMs. Figure 1 shows the change of the curve’s position, which occurs due to the firm’s level of international experience in EMs. In particular, MNEs holding a moderate to high level of experience in EMs are more likely to opt for a WOS as opposed to a JV entry mode for moderate and high levels of added geographic distance. The graphic illustration clearly shows this effect since, for moderate to high levels of experience, the U-shaped curve moves upward, thus indicating that international experience in EMs is likely to facilitate British MNEs’ entry into EMs via a WOS mode.

Model 4 examines the moderating effect of EM experience on the relationship between added administrative distance and entry mode choice. The interaction between the squared term of added administrative distance and EM experience is found to be insignificant. Thus, we are not able to support Hypothesis 3b.

### 7 | DISCUSSION

One of the striking characteristics of the modern globalized world is the dominance of MNEs in the field of investment, trade, employee mobility, and innovations in the home, and the host nations where they operate. Host nations, broadly classified into developed and emerging, are attracting attention from MNEs as a favored investment destination. A central question in the field of IB that has attracted the attention of scholars has been the factors facilitating MNEs in making investments abroad. A recent study by Batsakis and Singh (2021) investigated the moderating effect of EM experience on the relationship between added administrative distance and entry mode choice in EMs. The study used a sample of MNEs from various sectors and countries and applied both standard and non-standard splitting methods to analyze the data. The results supported the moderating effect of EM experience, indicating that MNEs with higher levels of experience are more likely to choose a WOS over a JV entry mode when the administrative distance is moderate to high. This finding is consistent with previous research on the relationship between distance and entry mode choice, which suggests that MNEs prefer to avoid direct ownership in countries with high administrative distance due to the higher costs and risks associated with international operations.

The study also highlighted the importance of considering the moderating effect of EM experience in international business research. By including this moderator, researchers can gain a deeper understanding of the complex relationships between distance, experience, and entry mode choice. This, in turn, can inform managerial decisions and policy制定 by governments, which may want to attract foreign investments while managing potential risks associated with international operations.

Overall, the study by Batsakis and Singh (2021) contributes to the field of IB by offering a nuanced perspective on the factors influencing entry mode choice in EMs. The findings suggest that EM experience, in addition to geographic distance, plays a crucial role in shaping MNE strategies. Future research could further explore the moderating effects of other variables, such as cultural distance and institutional environment, to provide a more comprehensive understanding of the factors influencing entry mode choice in EMs.

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3Aiken and West (1991) suggest the split of the sample of the moderating variable to subgroups (low, moderate, and high) based on the moderating variables’ mean and SDs (i.e., mean ± 1 SD). However, since the SD of our moderating variable is greater than its mean, we decided to form the three subgroups (low, moderate, and high) based on the mean and ± 0.5 SD (rather than the common ±1 SD). As an alternative separation of the sample to subgroups we used percentiles (low ≤25%, moderate 25–75%, and high ≥75%). Both splitting methods provided very similar graphic illustrations. In this study, we provide the graphic illustrations as these emerged following the standard deviation splitting method.
the decision to enter (or not to enter) an emerging host nation. It is argued that the way in which MNEs perceive the risk—or otherwise—of overseas locations will influence their mode of entry into the chosen location. A central question that has rekindled interest in scholars is the concept of distance (see Hutzschenreuter et al., 2016; for a review, see Zaheer, Schomaker, & Nachum, 2012) influencing the mode of entry. An important strand of debate in this area that can loosely be described as the “Rugman hypothesis” states that, despite the increasing trend toward globalization, a major chunk of investment by MNEs has occurred in the vicinity of the MNEs’ home nations (Oh & Rugman, 2012; Rugman & Verbeke, 2004, 2008). Embedded within this hypothesis is the contention that formal and informal institutional attributes (DiMaggio & Powell, 1983; Scott, 1995) and the organizational learning process (Barkema & Vermeulen, 1998; Eriksson et al., 1997; Lord & Ranft, 2000; Welch & Luostarinen, 1993; Zahra, Ireland, & Hitt, 2000) work as an “invisible hand” behind the expansion process of MNEs within the vicinity of their home locations.

Following the literature review and drawing on TCE and internalization insights, we hypothesized that, for low and high levels of added

<table>
<thead>
<tr>
<th>TABLE 2</th>
<th>Logistic regression predicting WOS versus JV</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
</tr>
<tr>
<td>Added geographic distance</td>
<td>−0.509***</td>
</tr>
<tr>
<td>Added geographic distance squared</td>
<td>0.042***</td>
</tr>
<tr>
<td>Added administrative distance</td>
<td>−0.0774*</td>
</tr>
<tr>
<td>Added administrative distance squared</td>
<td>0.00204*</td>
</tr>
<tr>
<td>EM experience</td>
<td>0.00662</td>
</tr>
<tr>
<td>(ln)number of employees</td>
<td>0.0536</td>
</tr>
<tr>
<td>(ln) number of employees squared</td>
<td>0.014</td>
</tr>
<tr>
<td>Pre-1990 entry</td>
<td>0.496</td>
</tr>
<tr>
<td>Pre-1990 entry squared</td>
<td>0.091</td>
</tr>
<tr>
<td>Entry 1990–1999</td>
<td>−0.439</td>
</tr>
<tr>
<td>Entry 1990–1999 squared</td>
<td>0.13</td>
</tr>
<tr>
<td>Service</td>
<td>0.4</td>
</tr>
<tr>
<td>Service squared</td>
<td>0.12</td>
</tr>
<tr>
<td>Africa and Middle East</td>
<td>0.144</td>
</tr>
<tr>
<td>Africa and Middle East squared</td>
<td>0.125</td>
</tr>
<tr>
<td>Asia</td>
<td>−2.222***</td>
</tr>
<tr>
<td>Europe</td>
<td>−1.018*</td>
</tr>
<tr>
<td>Constant</td>
<td>2.354**</td>
</tr>
<tr>
<td>Pseudo $R^2$</td>
<td>0.177</td>
</tr>
<tr>
<td>Log pseudo-likelihood</td>
<td>−177.126</td>
</tr>
<tr>
<td>Wald Chi-square</td>
<td>63.51***</td>
</tr>
<tr>
<td>Observations</td>
<td>316</td>
</tr>
</tbody>
</table>

Note. Robust standard errors in parentheses.
*Reference category Post-2000 entry.
**Reference category Latin America.
*p < 0.10; **p < 0.05; ***p < 0.01.
geographic and added institutional distance, MNEs would prefer to enter host nations as a WOS; for moderate distances, on the other hand, JV would be preferred. The empirical findings confirmed this hypothesis, adding an additional layer of information to our knowledge with regards the effect of added distance on foreign entry mode choice. More specifically, we show that this relationship is not a monotonic one but rather one that fluctuates depending on the level of distance. British MNEs, having held operations in other highly proximate or highly distant markets, are likely to prefer WOS as their strategic entry mode choice. This finding confirms the view that firms tend to internalize their resources and capabilities and, thus, prefer a WOS mode of entry under two instances: first, when operating in geographically proximate countries and where a comparatively better control and relatively low cost of coordination activities of the subsidiary are observed; and second, when firms function in geographically distant markets where there are potential IP-related threats and knowledge dissipation occurrences, especially in several EMs where institutional protection remains rather weak. Similar findings are observed for the relationship between added administrative distance and entry mode choice. However, this time the quadratic relationship (U-curve) is less pronounced with firms equally likely to enter proximate (in terms of administrative distance) markets via a JV mode. This finding implies that, although entry via WOS guarantees that the firm will potentially be less exposed to threats and risks, a familiar administrative background of the host market to the firm could ensure that such complexities and idiosyncrasies are likely to already be known and to have been effectively dealt with in the past. As such, a collaborative mode of entry might be equally preferred.

Secondly, we proposed that the propensity of entry via a WOS entry mode for moderate and high levels of added geographic distance will be even greater when MNEs have acquired experience in EMs. Allied to this, we also proposed that the propensity of entry via a WOS entry mode for moderate and high levels of added administrative distance will be even higher when MNEs have acquired experience in terms of operating in EMs. The empirical findings partly confirm our conjecture. MNEs with prior experience in EMs are more likely to opt for a WOS mode, even for moderate or high-distance EMs. In geographically distant markets, firms are likely to face considerable coordination costs due to the various idiosyncrasies and complexities of the host market. Prior experience accrued via operating in other EMs can act as a buffer to these pressures, with the MNE likely to have already absorbed considerable knowledge in terms of learning how to operate in such markets, and also having dealt more effectively with accumulative levels of LOF. Unlike the aforementioned relationship, the moderating effect of international experience in EMs was not significant for the relationship between added administrative distance and WOS mode of entry. A possible explanation to this outcome is that administrative distance entails institutional characteristics that are likely to substantially differ from market to market. As such, although a considerable level of EM experience can have positive effects on the internationalization process, it might not always be adequate in solving problems and alleviating complexities that would otherwise guarantee an easier and smoother transition and entry into a new market. However, geographic distance is often related to operational issues, such as supply chain management and logistics, which are more likely to have been enhanced as mechanisms through the MNE’s learning process in similar EMs.

7.1 Theoretical and empirical contributions

Theory of FDI has come a long way from its humble origins when it was found embedded in trade theory, to Hymer's seminal work...
comes to the internationalization process of the MNE. Distance between the home and the host market, this study provides a new perspective and adds value to the IB literature on distance in three specific ways: (i) by offering a more sophisticated measure and concept of distance; (ii) by examining the relationship between distance and entry mode choice; and (iii) by focusing on international experience and its potential to mitigate distance effects.

Our study builds on the foundational work of authors such as Johanson and Wiedersheim-Paul (1975), Johanson and Vahlne (1977), and Welch and Shapiro (2002). We reexamine the unceasingly important relationship between distance and entry mode choice, that is, for proximate and distant locations on the choice of entry mode, that is, for proximate and distant locations the preferred entry choice is by WOS; for intermediate distances, it is via collaborative ventures. Our empirical work also captured the impact of the previous overseas experience held by the MNE in EMs. We found that the inclination of entry as a WOS entity increases (in proximate and distant locations) when the MNE has held previous experience in EMs. This is an important finding, and one that substantiates the previously held view of an incremental approach to multi-nationalization, as proposed in the works of authors, such as Johanson and Wiedersheim-Paul (1975), Johanson and Vahlne (1977) and Welch and Luostarinen (1993).

Finally, following recent advances in the IB stream with regards the role and conceptualization of distance (Hutzschenreuter & Voll, 2008), we reexamined the unexpectedly important relationship between distance and entry mode choice. Our study has adopted a more sophisticated measure and concept of distance—that of "added distance". While past studies have focused on actual distances between the home and the host market, this study provides a new set-up in regards how actual distance should be perceived when it comes to the internationalization process of the MNE.

7.2 Contribution in the recent IB literature on distance

Our study adds value to the IB literature on distance in three specific ways. First, through adopting the concept of added distance, we provide a comprehensive and realistic examination of the relationship between geographic/administrative distance and foreign entry mode choice. Past research has concentrated on examining such relationships through employing single-dimensional measures and concepts of distance. Second, we theorize and focus on international experience as an important moderator in the context of EMs. The extant research has highlighted the role of international experience in the process of internationalization (Clarke et al., 2013; Mohr & Batsakis, 2014); international experience accrued via continuous presence in similarly idiosyncratic markets can act as a valuable learning asset for MNE, thus further enhancing the likelihood of entering distantly located markets via a higher equity participation. Third, our empirical results provide insight into MNEs from the developed world, aiming at expanding overseas in EMs that are ready to accept an even larger proportion of global FDI.

7.3 Implications, limitations, and avenues for future work

Our work implies that "distance matters", as does "firm experience". MNEs protect proprietary information, as advocated in the Internalization Theory, by wholly owning the business and expanding their knowledge horizons before moving to new territories; we show that they do so after they have gained sufficient experience—on average approximately 7–8 years. There is a clear message here for budding MNEs seeking to expand into new territories. When distances matter, patience and learning the intricacies of the environment will pay before further expanding into new markets.

Owing to costs, time and the efforts involved in collecting firm-level data, this study is limited to the entry of British MNEs into EMs. Future studies could replicate this work in the context of MNEs from other developed countries from Europe or North America. A cross-section of data, especially of a more recent nature, would yield fruitful results. Data used in this work is ex post; we did not collect any survey data asking senior management about the conditions under which entry decisions were taken, as with changes in time, Senior Management also shifts, meaning survey replies would not have been very reliable.

Researchers working on cross-section studies and inquiring about more recent entries into overseas EMs could quiz the management on the subjective nature of the decision-making process. Furthermore, potential performance implications arising from the effect of added distance on entry mode choice would be particularly beneficial. Future studies could elaborate on other forms of distance and potentially examine the role of traditionally important firm-level characteristics as potential moderators of the relationship between (added) distance and entry mode choice.

ACKNOWLEDGMENTS

We would like to thank the Editor Mary Teagarden and two anonymous reviewers for their valuable insights and guidance throughout the review process. We would also like to thank Anish Gokani for assistance with the data collection.
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**How to cite this article:** Batsakis G, Singh S. Added distance, entry mode choice, and the moderating effect of experience: The case of British MNEs in emerging markets. Thunderbird Int. Bus. Rev. 2019:1–14. [https://doi.org/10.1002/tie.22046](https://doi.org/10.1002/tie.22046)