

# Theoretically misaligned entry modes: a risk-propensity approach

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**Abstract:** Firms often enter foreign markets using entry modes that are misaligned with the predictions of Transaction Cost Economics (TCE). Complementing TCE with prospect theory, we argue that theoretically misaligned entry-mode decisions are riskier decisions. We suggest that prior international experience deriving from failure (vs. success) and from activities that are different (vs. similar) to the focal one prompt firms to become more risk-seeking, and hence choose theoretically misaligned entry-mode. At the same time, firms facing too much ‘unknown ground’ (i.e., experience with *both* failure *and* different activities) are more likely to be more risk-averse, and thus comply with theoretical predictions.

**Keywords:** Entry modes; TCE prediction; prospect theory; experience; business process offshoring.

## INTRODUCTION

Firms approaching new countries can choose to either implement a foreign direct investment with a full control over the subsidiary or to acquire inputs from a supplier. This strategic decision is traditionally known in the international business literature as the entry-mode choice. Predictions derived from transaction cost economics (TCE - see Buckley and Casson, 1976; Hennart, 1982; Williamson, 1975; 1985) and its extended versions involving institutional theory and cultural distance (e.g. Brouthers, 2002, Elia et al., 2014) have been largely employed as a mainstream framework to explain the entry mode choice of multinational firms. The theory generally suggests that firms facing high transactions costs (e.g., due to uncertainty and the strong specificity of the assets involved in the internationalization process) will prefer a hierarchical solution in order to reduce the risks of an opportunistic behaviour from the partner that would be involved in the market solution.

At the same time, many firms deviate from TCE when selecting how to invest in a foreign country. In particular, research shows that firms that do not comply with the prescriptions of the TCE may face performance drawbacks as important assets are put at stake (Leiblein, Reuer & Dalsace, 2002; Brouthers, 2002). The misalignments between the entry mode suggested by TCE and the entry mode selected by the firm can thus be seen as managerial mistakes that can seriously compromise the success of the foreign venture (Elia et al., 2014). In this article, we explore why firms choose misaligned entry modes by emphasizing the role of previous investments experience. Indeed, recent research shows that experience can either give birth to heuristics and cognitive biases affecting the entry choices of the decision makers (Elia, Larsen and Piscitello, 2019) or be a source of alternative types of entry-mode learnings (i.e. inertial vs. mindful) that can have different effects on firms' growth prospects (Albertoni, Elia and Piscitello, 2019).

We complement these contributions by exploring how previous experience can increase decision makers' risk propensity when selecting entry modes. In doing so, we portray theoretically misaligned entry modes as operations governed by inadequate mechanisms to ensure protection for asset specific investments and hence surrounded by considerable risk and uncertainty. Based on this, we employ prospect theory to understand which reference frames make decision makers more likely to opt for riskier outcomes (e.g., Kahneman and Tversky, 1979). Specifically, we distinguish between two important dimensions of prior international experience: from past failure (vs. success) and from activities that are different (vs. similar) to the focal one. Drawing on prospect theory (Kahneman and Tversky, 1979; Miller and Chen, 2004, Figueira-de-Lemos and Hadjikhani, 2014), we argue that prior experience with failure and different activities prompt decision makers to question prior routines and practices and thus more risk-seeking. While prior experience with success and similar activities is more likely to confirm that existing organizational practices and routines actually work and support the objectives of the firm, failure and different activities induce decision makers to choose riskier solutions. However, however, we also argue that firms with experience from both failure and different activities are more likely to use entry modes that do comply with theoretical predictions. Specifically, while the search for alternatives deriving from one source (either failure or different activities) leads to riskier behavior, decision makers facing too much 'unknown ground' (i.e., both failure *and* different activities) are more likely to adhere to existing practices of operations. Thus, decision makers become more risk-averse and will comply with theoretical predictions.

Using the context of business service offshoring in which firms relocate administrative and technical activities abroad in internal or external modes of governance (Contractor et al., 2010; Manning, Massini, and Lewin, 2008), we find support for our hypotheses. Much research has

explored why offshoring firms choose certain governance mode over others (Griffith *et al.*, 2009; Gopal *et al.*, 2003; Elia *et al.*, 2014; Vivek *et al.*, 2009). For example, applying a transaction cost economics logic, Griffith *et al.*, (2009) suggest that the asset specificity and uncertainty of the transaction has a direct impact on whether the activity is implemented internally in the firm or in an outsourced arrangement. Yet, to the best of our knowledge, none have questioned why firms often opt for theoretically misaligned entry modes.

This article offers important contributions for further research. By applying a “misfit” analytical approach (e.g., Ariño *et al.*, 2008), we contribute to the entry mode discussion which, according to some (Shaver, 2013), seem to have lost some of its steam. Specifically, we pinpoint how theoretically misaligned entry modes may be seen as the outcome of firms’ risk propensity arising from previous experience. Indeed, while existing research has emphasized the performance deteriorating consequences of misaligned decisions, we argue and show that firms may select such modes of entry as a way to opt for riskier solutions. Hence, we disentangle the important roles and effects of previous foreign ventures on entry mode choice by suggesting that different dimensions of international experience imply different types of acculturation processes, thus offering new insights on *why* and *when* divergence occur within the internationalization process approach.

## **THEORY AND HYPOTHESES**

### **Misaligned entry-modes and prospect theory**

When applied to the entry mode choice, TCE predicts that multinational firms investing abroad will prefer hierarchical solutions (rather than markets) whenever transaction costs are high (Buckley and Casson, 1976; Hennart, 1982). Associated empirical work (e.g., Brouthers, 2002) predicts that the mode of international entry is also associated with factors such as cultural distance as well as political uncertainty and instability. For example, the more politically uncertain a given

location is, the higher the need is to retain the opportunity to quickly divest and thus opt for lower equity modes of governance (Kobrin, 1980; Henisz and Delios, 2001). Under situations of high cultural uncertainty, firms may require higher degrees of flexibility and real options, resulting in lower equity modes of entry (Gatignon and Anderson, 1988).

Theoretical and empirical research have largely shown that firms deviating from these prescriptions face lower technological performance (e.g. Leiblein, Reuer & Dalsace, 2002), worse financial and non-financial outcomes (Brouthers, 2002), and less cost-saving and service quality (Elia et al., 2014). Hence, a misalignment between the prescriptions of the TCE model and the chosen entry mode can have serious negative consequences for the multinational firm.

In this article, we focus on such theoretically misaligned entry modes, defined as international entry modes that do not comply with conventional theoretical predictions. However, instead of associating theoretically misaligned entry mode decisions with suboptimal strategic outcomes, we conceptualize the misaligned entry modes as riskier choices generated by a wider search process that breaks with conventionally held views on how to most optimally enter new markets. Hence, instead of focusing on the performance effects of selecting ‘optimal’ entry modes (e.g., Brouthers, 2002), we emphasize the antecedents of making entry mode decisions that do not adhere to theoretical predictions.

In this respect, we draw on prospect theory to argue that decision makers tend to be more risk assertive when the outcome of decisions are expected to be negative, while being more risk adverse and conservative when the outcomes are expected to be positive (Kahneman and Tversky, 1979). In particular, prospect theory suggests that decision makers tend to be more risk assertive when past performance is below a certain reference point, while they assume a more risk adverse and conservative behavior when they perform above expectations (Figueira-de-Lemos and

Hadjikhani, 2014; Kahneman and Tversky, 1979; Miller and Chen, 2004). For example, Chattopadhyay et al. (2001) found that CEOs were more likely to make externally directed actions (instead of less risky internally oriented actions) whenever perceived threats to their organizations' resources. Thus, prospect theory argues that decision makers use frames or points of reference in evaluation of risky decisions. As theoretically misaligned entry modes can be regarded as decisions that are associated with significant risk and uncertainty, we apply these insights to understand the antecedents of making such decisions.

In this respect, we focus on the role of international experience to create a reference point that drives firms to search for alternative and riskier entry modes. Indeed, existing research strongly emphasizes the role of international experience with respect to entry mode choice (e.g., Brouthers and Brouthers, 2001; Delios and Beamish, 1999; Sanchez-Peinado, Pla-Barber and Hebert, 2007). It has been argued that international experience reduces the liabilities of foreignness and risk which eventually makes higher control mode more feasible (Sanchez-Peinado et al., 2007). Besides uncertainty, international experience may have an important impact on the likelihood to initiate wider search for alternative solutions that can spur future performance. For example, Reuer *et al.* (2002) found that certain types of experience can help firms to design their alliances more effectively as they are formed. Relatedly, research on organizational adaptation has established that cognitive representations play an important role in seeding and constraining the process of adaptive behavior (Gavetti et al., 2005) and that the relative effectiveness of different strategies is highly dependent on such organizational traits as size, complexity, and disposable time (Baumann and Siggelkow, 2014). Experience can also have different effects of future performance: some firms, indeed, tend to repeat ritualistically what they have done in the past, thus adopting an inertial type of learning, while some others try to understand the routines and the

practices that were responsible for the success and the failure of past ventures, thus adopting a mindful type of learning, being only the latter effective in fostering the future growth of the company (Albertoni, Elia and Piscitello, 2019). The importance of distinguishing between under- and over-performance of the past international experience has been highlighted also by a recent contribution from Elia, Larsen and Piscitello (2019) who argue that entry mode decision making is affected by the decision makers' representativeness bias (based on the extent to which the present and past venture are similar and on the performance of the latter) and availability bias (based on the extent to which past performance is recent or salient).

In the following, we develop empirically testable hypotheses on two types of international experience that affect entry mode decisions. First, we argue that experience deriving from failure is more likely to prompt the search for riskier solutions in contrast to experience with success, and thus contribute to the choice of theoretically misaligned entry-modes. Second, we argue that experience with different activities (in contrast to similar activities) provides firms with the impetus to search for alternative unexplored solutions and therefore also theoretically misaligned entry modes. Finally, we develop a hypothesis on the interaction between experience from failure and different activities, and argue that this is more likely to drive firms toward theoretically aligned entry mode decisions as the process of searching for novelty becomes too complex. Our conceptual framework is summarized in Figure 1, showing that under-performing experiences or experiences in unrelated activities give birth to theoretically misaligned entry modes (top right and bottom left quadrants), while underperforming experience occurred in unrelated activities gives birth to theoretically compliant entry modes (bottom right quadrant).

\*\*\**Figure 1 about here*\*\*\*

**Experience with previous unsuccessful international activities**

First, we distinguish between experience from success and failure and the impact on the likelihood of choosing entry modes that are not in alignment with theoretical predictions. As mentioned, decision makers tend to be more risk-assertive when their outcomes are below a reference point, while they assume a more risk-adverse and conservative behavior when they well-perform (Kahneman and Tversky, 1979; Miller and Chen, 2004, Figueira-de-Lemos and Hadjikhani, 2014). Related studies have also emphasized how the difference between experience with success and failure has important consequences for guiding future decisions (Baum and Ingram, 1998; Haunschild and Sullivan, 2002; Madsen and Desai, 2010). On the one side, experience with success provides firms and their employees with the means to confirm that existing organizational practices and knowledge work and support the objectives of the firm (i.e., display a risk averse attitude). For example, Li *et al.* (2017) find that Chinese firms are less likely to engage in risky outward international activities if they have experienced gains from inward international activities.

On the other side, experience with failure challenges existing wisdom and structures, and motivate firms to adopt a riskier reference frame that allows them to overcome past failures (i.e., display risk seeking attitude). Accordingly, performance below aspiration levels induce riskier organizational behavior as it incentivizes the firm to critically review and update its expectations of its existing capabilities and the requirements necessary to manage activities in the given environment (Levitt and March, 1988; Zollo, 2009). Firms having experience with performance below expectations are thus incentivized to reconfigure their resources and activities in order to increase effectiveness (Moliterno and Wiersema, 2007). Such ‘failure’ to attain aspiration levels often leads to increases in firms’ risk profile (Bromiley, 1991; Kahneman and Tversky, 1979), as the decision-makers seek riskier solutions to shorten the gap between their current performance and their aspiration levels (Fiegenbaum and Thomas, 1988; Greve, 1998).



We draw on these insights to argue that while performance above expectations with international activities leads to more risk adverse behavior, performance below expectations is more likely to lead to risk-seeking behavior. Examples of prior experiences below expectations may be that firms realize that the costs of coordinating and controlling foreign activities, and the costs of transferring knowledge across country borders are substantially higher than initially expected (Larsen *et al.*, 2013). In some cases, firms may even decide to re-shore the previously internationalized activities due to exceeding costs levels (Albertoni *et al.*, 2017; Chadee and Raman, 2009; Larsen, 2016).

Thus, in situations where prior international activities can be regarded as performing below expectations, decision makers are more likely to adopt a riskier search for solutions that can overcome the challenges causing the underperformance. Indeed, underperformance induces a ‘sense of urgency’ that makes the adoption of riskier decisions more likely (Cameron, 1984; March, 1981). Seeing the misalignment between the entry mode selected by the company and the entry mode prescribed by the (extended) TCEs as an inherently risk-prone and uncertain choice, we thus expect that firms are less likely to comply with theoretical predictions upon making entry mode decisions in situations where prior international activities could be regarded as performing below expectations. In sum, we formulate the following hypothesis:

*Hypothesis 1: Prior experience with unsuccessful international activities increases the likelihood of choosing a theoretically misaligned entry mode.*

### **Experience with different international activities**

Second, firms may have prior international experience with similar as well as different activities with respect to the entry mode decision on the focal activity. For example, a firm may face an entry mode decision for an international sales subsidiary for which it has vast prior experience in other

locations. Conversely, a firm may face an entry mode decision for international R&D for which has no or little previous experience. Similar to the argumentation above, we argue that firms making entry mode decisions on activities that are different with respect to those ones involved in previous internationalization experience prompt a more attentive and proactive search for riskier solutions.

Specifically, to the extent that a firm is making a decision on an activity to which it has prior experience, it is more likely to have established specific routines and operational practices that it seeks to continue with future activities (e.g., Nelson and Winter, 1982). Thus, the act of ‘self-imitation’ of established routines reduces the operational and managerial uncertainty related with further international expansion (Chang, 1995; Gao, Pan, Lu, & Tao, 2008). In contrast, if the firm has international experience on activities that are different with respect to that of the focal activity, the firms are more likely to possess the necessary motivation to challenge and alter prior knowledge, thus engaging in a wider search for alternative and riskier solutions.

Accordingly, we argue that entry mode decisions concerning new activities to which the firm has little international experience induce firms to search for riskier solutions. As entry-mode decisions that do not comply with theoretical predictions can be regarded as the outcome of a high risk propensity, we formulate the following hypothesis:

*Hypothesis 2: Prior experience with international activities that are different from the focal one increases the likelihood of choosing a theoretically misaligned entry mode.*

### **Experience with both failure and dissimilar activities in foreign markets**

Thus far, we have employed prospect theory to argue that experience with either international failure or different activities provides firms with the necessary means to choose riskier solutions, and hence be more likely to opt for entry-mode decisions that will not necessarily comply with

traditional theoretical expectations. However, in cases where a firm bases its decision on both failure *and* different activities, we argue that the process of searching for alternative solutions becomes too difficult to manage and is likely to deteriorate future behavior. Without a clear point of reference on which to guide the search for new solutions, firms are more likely to derive at ‘noisy search’, which will not result in alternative solutions, but instead errors in the performance signal that deteriorate behavior (e.g., Asmussen et al., 2017). In these cases, we expect firms to return to the baseline reference on entry mode decisions, and as such select according to theoretical predictions.

To elaborate, we argue that decision makers basing their decisions on experience with failure and different activities will find themselves using substantially more time to search for relevant knowledge, access those sources, and eventually process the information (Cyert and March, 1963). Such decision makers are thus not only expected to manage the vast knowledge deriving from broad search encapsulating multiple dimensions, but also absorb and make sense of the knowledge found in the different dimension. Thus, decision makers are increasingly faced with the burden of coordinating and devising the necessary communication and decisions among organizational members to complete work jointly or individually across or within organizational boundaries (e.g., Gulati and Singh, 1998). Moreover, decision makers run the risk of being subject to substantial information overload, which can affect their ability to create innovations of high quality (O’Reilly, 1980; Paruchuri, 2010), and more generally undermine precision in decision-making and eventually challenge performance (Levinthal, 1997; March and Simon, 1958).

Accordingly, while we expect the quest deriving from one domain to prompt decision makers to search for riskier solutions, we expect that decision makers facing complexity deriving from several dimensions are more likely to adhere to existing practices of operations. Too much

unknown ground associated with future entry decisions is therefore likely to create noise that may impact the processes of search in a significant manner (e.g., Denrell and March 2001; Nelson and Winter, 1982; Sommer and Loch, 2004). Hence, instead of continuing with the wide search, we expect firms to return to their baseline knowledge and thus comply with theoretical predictions in making entry mode decisions.

*Hypothesis 3: Prior experience with unsuccessful international activities outside the respective function increases the likelihood of choosing a theoretically compliant entry mode.*

## **DATA AND METHODS**

### **The databases**

The primary source of our empirical analysis is the database developed by the Offshoring Research Network (ORN), a research project that was launched in 2004 by the Duke University (United States) to study the phenomenon of offshoring of business services (Lewin and Peeters, 2006; Lewin, Massini, and Peeters, 2009). The ORN database is the result of the collaboration of 13 partner universities in different countries<sup>1</sup> and is based on the cooperation between researchers and practitioners for data collection and for a deeper comprehension of the offshoring phenomenon. The ORN database builds on six repeated surveys that have been submitted to the offshoring companies from 2005 until 2011, thus enabling the collection of detailed data on the drivers, geography, risks, entry mode and performance implication of the global sourcing initiatives across all business functions. To complement the ORN database, in this paper we also employ additional

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<sup>1</sup> The countries involved in the ORN network are: Australia, Belgium, Brazil, China, Denmark, Germany, France, Italy, Japan, Korea, the Netherlands, the United Kingdom, and Spain. Each partner was in charge of collecting data on offshoring of business function in their own country and to share them with the other members of the network, thus contributing to the ORN database.

information collected from three different data sources: (i) the World Competitiveness Yearbook; (ii) the World Bank; and (iii) Hofstede (2001)<sup>2</sup>.

### **The sample and some descriptive statistics**

Due to missing values in some of the ORN variables employed in the empirical analysis, our finale sample relies on 560 observations, each corresponding to a single offshoring initiative. Table 1 shows that most of the initiatives (221 observations, i.e. 67.58%) originates from the United States, followed by The Netherland (59 observations, i.e. 18.04%) and Belgium (28 observations, i.e. 8.56%). The main host countries are India (204 observations, i.e. 36.42%) and China (60 observations, i.e. 10.71%), while the rest of Asia and the Western Europe (both with 74 observations, i.e. 13.21%) are the most targeted macro-regions, as shown by Table 2.

*\*\*\*Tables 1 and 2 about here\*\*\**

The most offshored business functions are Information Technology and Customer Contact, involving 122 (i.e. 21.79%) and 90 (i.e. 16.07%) initiatives, respectively, as reported in table 3. Finally, Table 4 displays that the Software & IT services (154 observations, i.e. 27.5%) and Manufacturing (113 observations, i.e. 20.18%) are the industries that are responsible for the majority of offshoring initiatives.

*\*\*\*Tables 3 and 4 about here\*\*\**

### **The methodology**

We rely on a two-step methodology that builds on the previous literature that investigates the relationship between entry mode and performance (Shaver, 1998; Brouthers, 2002; Leiblein et al., 2002; Castañer et al., 2014; Elia et al., 2014). Specifically, in step (I) we estimate the relationship between two central entry modes in offshoring (outsourcing vs. captive) and a set of explicative

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<sup>2</sup> Combining the ORN survey with external databases allows limiting the Common Method bias (see Chang, van Witteloostuijn and Eden, 2010).

and control variables (including offshoring experience) that, according to the existing theory (e.g. Brouthers, 2002 and 2013; Castañer et al., 2014; Elia et al., 2014; Leiblein et al., 2002) reflect the drivers of the entry mode choice based on an extended TCE model (see equation (a)):

$$\text{Outsourcing} = f(\text{experience}, \text{explicative variables}, \text{controls}, \varepsilon) \quad (\text{a})$$

We compute the misalignment between the entry mode predicted by step (I) and the entry mode selected by the companies of the sample for each offshoring initiative. The misalignment assesses the extent to which the entry choice of each foreign venture departs from the entry model of step (I), i.e. from a model whose explicative variables comply with the mainstream theory.

In step (II), we first regress the entry misalignment on the same variables of step I, in order to understand whether experience *per se* implies a departure or a compliance with respect to the entry choice model of step I (which is based on the mainstream theory), as shown by equation (b):

$$\text{Entry Misalignment} = f(\text{experience}, \text{explicative variables}, \text{controls}, \varepsilon) \quad (\text{b})$$

To test Hypotheses 1 and 2, we focus on the subsample of offshoring initiatives with at least one previous experience (for a total of 320 observations), in order to be able to classify the type of experience by distinguishing between intensity of unsuccessful over total experiences and intensity of out-function over total experiences. We regress the entry misalignment on the variables of step I and on the abovementioned experience variables, as shown by equation (c):

$$\text{Entry Misalignment} = f(\text{unsuccessful experience intensity}, \text{outfunction experience intensity}, \text{explicative variables}, \text{controls}, \varepsilon) \quad (\text{c})$$

Finally, to test Hypothesis 3, we introduced the interaction term between the two different types of experience, as shown by equation (d):

$$\text{Entry Misalignment} = f(\text{unsuccessful experience intensity}, \text{outfunction experience intensity}, \text{unsuccessful experience intensity} * \text{outfunction experience intensity}, \text{explicative variables}, \text{controls}, \varepsilon)$$

(d)

## The variables

### *Variables of step (I)*

*Dependent variable.* The dependent variable of equation (a) in step (I) is *Outsourcing*, a dummy equal to 1 when the entry mode selected by the company is outsourcing (i.e. international, local or domestic third-party service provider) and 0 when captive (i.e. wholly-owned subsidiary). The variable originates from the following question in the ORN survey: “What is the service delivery model currently used for this offshoring implementation?”. In our sample, the number of outsourcing initiatives (291 observations, i.e. 51.96%) is balanced with respect to the number of captive initiatives (269 observations, 48.04%).

*Explicative variables.* To identify the main explicative variables accounting for the entry mode choice, we draw on the “extended TCE model” proposed by Brouthers (2002) in combination with research accounting for the role of experience (e.g. Harrigan, 1985; De Beule et al., 2014).

As a first explicative variable, we employ *offshoring experience*, i.e. the total number of previous offshoring initiatives undertaken by each company for each observation. The role of previous experience in explaining the entry mode choice has been acknowledged to have a relevant role in reducing the uncertainty for the future investments, as companies learn from the early initiatives and adapt the modes of the subsequent entries (Benito and Gripsrud, 1992; Chang, 1995; Gao and Pan, 2010; Swoboda, Elsner and Olejnik, 2015). We expect that firms facing uncertainty, as in the case of the early (rather than the latest) investments, prefer outsourcing as this entry mode provides greater flexibility and, hence, the possibility to withdraw the investment more quickly

and easily if problems arise (Harrigan, 1985). Conversely, firms undertaking more than one investment will be more willing and confident to adopt captive solutions building on the experience they acquired from previous initiatives.

Following Brouthers (2002), we then account for transaction costs arising from asset specificity, by introducing the variable *High Value-Added Functions*, a dummy taking value of 1 when the function is knowledge intensive and 0 otherwise (see also Youngdahl, Ramaswamy, and Dash, 2010)<sup>3</sup>. In our sample, 133 initiatives involve high value-added functions. Following the TCE approach, we expect these functions to have a higher probability to be offshored through captive (rather than outsourcing) solutions. We also capture the cultural contexts of the home and host countries through the variable *Cultural Distance*, which has been computed by applying the Kogut and Singh (1988) index to the Hofstede (2001) items<sup>4</sup>.

The external environment of the host country has been considered through four different variables, i.e. *Host Political Stability*, reflecting the quality of institutional infrastructures, *Host Market Attractiveness*, accounting for the potential economic growth, *Host Low Cost of Labor*<sup>5</sup>, reflecting the extent to which the wages of the workers and the other costs cost of labor are inexpensive, and *Host Human Resources*, accounting for the availability of skilled labor. These variables have been computed through an exploratory factor analysis implemented on the items provided by the World Governance Indicators databases and the World Competitiveness Yearbook, using the average of the data between 2004 and 2011 (the years of the survey). Details about the items and about the factor analysis are provided in table 5. We expect that political

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<sup>3</sup> Following this classification, we identified engineering services, product design and R&D as high-value added functions.

<sup>4</sup> Masculinity, Individualism, Masculinity and Uncertainty Avoidance.

<sup>5</sup> The original items of this variable display high values when labor costs are high. Therefore, we reverse-coded the items before the factor analysis by giving the scores a negative sign, meaning that resulting variable *Low cost of labor* associates high values to countries with low cost of labor.



stability and market attractiveness reduce the environmental uncertainty and increase the business opportunities arising from the market growth, thus favoring the adoption of a captive entry mode, as suggested by the managerial literature. Conversely, the availability of low labor cost is likely to push firms to outsource their activity to the specialized local service providers in order to take advantage of cost-saving. Finally, firms are expected to prefer a full control over their foreign activities when the availability of skilled labor is high, as the captive solution ensures a more effective absorption of the local knowledge embedded in skilled labor.

\*\*\*Table 4 about here\*\*\*

We also include three variables capturing the main drivers of internationalization applied to the context of offshoring of business services, i.e. *Market-Seeking*, *Efficiency-Seeking* and *Human Resource-Seeking* (Lewin, Massini and Peeters, 2009). The variables arise from the following question in the survey: “What is the importance of each of the following drivers in considering offshoring this function?”. We selected, in the list of the possible drivers, the following items: “Access to new markets for products and services”; “Enhancing efficiency through business process redesign”; “Access to qualified personnel offshore”. All these variables vary on a 1 to 5 Likert scale. We expect that the driver accounting for market-seeking investments increases the probability to undertake a captive investment, as this entry mode provides more rent appropriation opportunities than outsourcing. The predominance of the efficiency-seeking driver is likely to favor outsourcing solutions, which enable firms to focus on their core business. Finally, *Human Resource-Seeking* investments are likely to favour captive rather than outsourcing solutions, as the full control of the company enable a more effective transfer of knowledge from the local skill labour to the offshoring company.

*Control variables.* We also employ a set of explicative variables that might affect the entry mode choice. First, we control for *Company Size* through a scale variable ranging from 1 to 3, being equal to 1 for small firms (less than 500 employees), 2 for medium firms (between 500 and 20,000 employees) and 3 for large firms (those with more than 20,000 employees). In our sample, the number of small, medium and large firms amount to 146 (i.e. 26.07%), 230 (i.e. 41.07%) and 184 (i.e. 32.86%), respectively. Second, we control for the time effect through the variable *Age of the Initiative*, which is computed as the difference between the year of the survey (i.e. 2011) and the year of the implementation of the offshoring initiative. Third, due to the large number of observations originating from the U.S., we introduce the dummy *Home U.S.A.*, taking value of 1 if the U.S. is the home country of the initiative and 0 otherwise. Finally, we include 7 *Dummy Industries*, which group the different sectors according to the Eurostat-OECD (2007) classification based on the R&D intensity of the manufacturing industries and on the knowledge intensity of the service sectors<sup>6</sup>.

#### *Variables of step (II)*

*Dependent variable.* The dependent variable of equations (b), (c) and (d) in step (II) is *Entry Misalignment*, measuring the extent to which the selected entry mode departs from the entry mode predicted by step (I) based on existing theory. The variable has been computed by applying a “misfit” analytical approach (e.g., Ariño et al., 2008) and particularly the methodology suggested by Brouthers (2002), Leiblein et al. (2002) and Elia et al. (2014). Specifically, we first obtained a continuous variable (ranging from 0 to 1), equal to  $\Phi$  in case of captive and to  $1 - \Phi$  in case of

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<sup>6</sup> The Eurostat-OECD (2007) classification identifies the following categories: Knowledge Intensive High-tech Services, Knowledge Intensive Market Services, Knowledge Intensive Financial Services, Other Knowledge Intensive Services, Less Knowledge Intensive Market Services, Other Less Knowledge Intensive Services, High Tech Manufacturing Industries, Medium-High tech industries, Medium-Low Tech Manufacturing Industries and Low-tech manufacturing industries. The dummy accounting for High Tech Manufacturing Industries have been used as benchmark, while the dummies accounting for Other Less Knowledge Intensive Services and for Low-tech manufacturing industries have been dropped due to collinearity.

outsourcing, where  $\Phi$  is defined as the standard normal cumulative distribution function, as follows:

$$\text{Prob}(Y_i = 1) = \Phi(\beta'X_i)$$

Following Brouthers (2002) and Elia et al. (2014), we then adopted a dichotomous measure, where misalignment is equal to 1 when the value of the continuous variable defined above is greater than 0.5, and 0 if lower than 0.5.

*Explicative and control variables.* Equation (b) makes use of the same explicative variables of equation (a) and aims at providing an insight concerning the role of the generic *Offshoring Experience* on the misalignment.

Conversely, in equations (c) and (d) we focus our analysis on a subsample of observations with at least one previous experience, for a total of 320 observations, and we employ the same variables of equation (b) with the exception of the offshoring experience. The latter is indeed replaced by three variables identifying different types of experience, two of which have been used as explicative variables to test our hypotheses, while the third one as control variable. The first explicative variable is *Unsuccessful Experience*, which is the share of unsuccessful over total experience of the company undertaking the offshoring initiative up to the year of implementation. To assess the extent to which an experience has been unsuccessful, we rely on the concept of hidden costs of offshoring (Larsen et al., 2013; Larsen, 2016), i.e. the unforeseen costs that arise after the implementation of the initiative due either to external contingencies or to factors that are internal to the company. The hidden costs are responsible for extra costs during the offshoring initiative, thus affecting the extent to which the company can reach the objective to save on costs. Specifically, following Larsen et al. (2013), the hidden cost has been computed as the difference between the savings expected and the ones actually achieved (whose values are provided by the

ORN questionnaire as percentage of saving in the last year). A positive difference means that the savings expected are higher than the savings achieved and, therefore, can be regarded unsuccessful. Vice versa, if the difference is negative, it means that the savings achieved are higher than or equal to the ones expected and, therefore, can be considered successful. The variable *Unsuccessful Experience Intensity* counts the number of former (over total) initiatives with hidden cost higher than zero. Following hypothesis 1, we expect a positive relationship between this explicative variable and the entry misalignment.

The second explicative variable of equations (c) and (d) is *Out-function Experience*, which counts the number of previous (over total) initiatives involving functions different from that one being offshored. Following hypothesis 2, we expect a positive relationship of this variable with the entry misalignment. Conversely, to test hypothesis 3, we employ the interaction between Unsuccessful Experience and Out-function Experience, as shown in equation (d). A negative relationship is expected to hold with respect to the dependent variable.

The third variable that we employ to disentangle the generic offshoring experience is *Host Country Experience*, which is computed as the number of previous (over total) initiatives undertaken in the same host country of the present offshoring initiative. This variable is used as additional control in both equations (c) and (d) to account for the traditional country-specific experience, which can affect the entry mode choice (and, hence, the extent to which a company misaligns with respect to the theory) by reducing the liability of foreignness.

Table 5 reports the correlation matrix and the descriptive statistics of the variables employed in equation (a) of step (I) and in equation (b) of step (II), while table 6 shows the correlation matrix and the descriptive statistics of the variables employed in equations (c) and (d) of step (II). Given the high correlations between some pairs of variables, such as Out-function

Experience and Host-Country Experience in Table 6, we computed the Variance Inflation Factors (VIF) for both Tables 5 and 6. The values turn out to be always lower than the threshold of 10.00, thus ruling out potential multicollinearity problems.

\*\*\*Table 5 and 6 about here\*\*\*

## RESULTS

Given the dichotomous nature of both dependent variables, we employed a robust Probit model to estimate the equations of both step (I) and step (II). Table 7 displays the results of the Probit regressions analysis, being model (a) applied to equation (a) of step (I) and models (b), (c) and (d) to equations (b), (c) and (d) of step (II), respectively.

Model (a) shows that the main variables explaining the selection of the entry mode are *Host Political Stability* and *Market-Seeking*, both displaying a negative and significant coefficient ( $p < 0.001$ ). This indicates that, as expected, the stable political infrastructures and the market-seeking driver are likely to favour the adoption of a captive (rather than outsourcing) entry mode. It is also worth noting that the variable *High Value-Added Functions*, which accounts for asset specificity, does not directly affect the selection of entry mode in model (a), but rather the extent to which the firm misalign with respect to the entry model of step (I). Indeed, model (b) shows that *High Value-Added Functions* is negatively correlated with the entry misalignment ( $p < 0.01$ ), meaning that when the asset specificity is high firms prefer to comply with the entry model based on conventional theory of step (I). A similar negative effect arises from *Host Market Attractiveness*, whose coefficient, however, display a weaker significance ( $p < 0.10$ ).

Turning our attention to the key variables concerning experience, we can observe that *Offshoring Experience* displays a positive and significant effect ( $p < 0.10$ ) on *Entry Misalignment* in model (b), which suggests that experienced firms tend to deviate more from mainstream theory

of step (I) with respect to the entry model choice. Model (c) enables us to better disentangle what type of experience does really foster the entry misalignment. Results shows the both *Unsuccessful Experience* and *Out-function Experience* exhibit a positive and significant coefficient ( $p < 0.05$ ) with respect to the dependent variable, thus providing support to Hypotheses 1 and 2. Finally, model (d) introduces the interaction effect between *Unsuccessful Experience Intensity* and *Out-function Experience Intensity*. Results show a negative and significant coefficient ( $p < 0.01$ ), suggesting that too much complexity and uncertainty implies a higher probability to align with respect to entry model of step (I), as suggested by Hypothesis 3.

Given the non-linear nature of the Logit model, to gain more insights on the interaction effect, we plotted the results by using the coefficient estimates. Figure 2 confirms that, for high levels (i.e., close to 1) of *Unsuccessful Experience Intensity*, the probability to misalign is slightly negative (meaning that it is lower) for high levels of *Out-function Experience Intensity*. Conversely, for low levels of *Unsuccessful Experience Intensity* (i.e., close to zero), the probability to misalign is greater when *Out-function Experience Intensity* is high. In sum, the results lend support to our hypothesized effects.

## **DISCUSSION AND CONCLUSION**

The purpose of this article is to explore the relationship between different types of international experience and the likelihood of selecting theoretically misaligned entry modes. While existing literature in the realms of transaction cost theory theory has tended to classify selection of such entry modes as suboptimal and performance deteriorating, we have instead sought to understand why some firms opt for modes of entry that deviate from extant theoretical predictions. To accomplish this, we have explored the role of international experience with failure (vs. success) and different (vs. similar) activities and have argued that these types of experience are more likely

to prompt decision makers to challenge existing wisdom and structures, and thus engage in search for riskier solutions. As theoretically aligned entry modes can be perceived as a *modus operandi* for firms' international behaviour, we have thus argued that theoretically misaligned entry modes can be seen outcomes that break with existing practices. Our empirical analyses of misaligned entry mode decisions in the context of business process offshoring wherein firms across industries relocate activities such as IT, software development, call centers, administrative services and knowledge work around the world through either internalized or externalized modes of entry confirm our expectations.

With this research, we make at least three contributions to existing research on entry modes. Above all, the selection of the entry mode still remains one of the key concerns for managers of companies investing abroad. For example, Brouthers (2013: 14) argue that "*we still lack clear tools to help managers to make their choices*", while Hennart and Slangen (2015: 118) add that it is not clear whether firms "*merely consider the frequency with which specific modes were chosen previously*", or "*take into account the ex post performance of prior choices*". We contribute to this stream of research by suggesting that besides the conventionally held antecedents of entry mode and equity share (e.g., TCE; political uncertainty; etc.), different types of international experience may explain why some firms are more inclined to select international entry modes that confirm the theoretical expectations and others not. As such, we are not so much interested in unraveling why some firms select ostensibly more 'optimal' modes of entry, but instead to shed light on the consequences of prior experience (e.g., Buckley et al., 2007; Sammartino and Maitland, 2015).

Second, we contribute by emphasizing theoretically misaligned entry modes as the outcome of a riskier processes. Specifically, while existing research has pinpointed the

performance deteriorating consequences of decisions, we argue that firms may select such modes of entry as a way to break existing practices and routines. Obviously, we acknowledge the research that shows how misaligned entry modes are generally associated with suboptimal performance (Brouthers, 2002). However, our analyses allow us to suggest that the relationship between firms' prior experience and the choice of theoretically aligned entry mode is not straightforward, and that the failure to account for this influence may affect proper interpretations of subsequent performance effects. As such, our study echo that of Leiblein et al. (2002: 817) which finds that *“Models that account for firm- and transaction-specific features are then presented, which indicate that neither outsourcing nor internalization per se result in superior performance; rather, a firm's technological performance is contingent upon the alignment between firms' governance decisions and the degree of contractual hazards.”*. Additionally, by showing that unsuccessful experiences trigger misaligned entry mode choices, our results turn out to be in line with the prospect theory, according to which low-performing firms tend to adopt a discontinuous behavior and to be more risk-assertive (Kahneman and Tversky, 1979; Fiegenbaum et al., 1996; Shoham and Fiegenbaum 2002, Aharoni, 2010). Our approach, emphasizing the relationship between previous experience and risk propensity in the entry mode choice, is complementary to other two very recent contributions that have shown how entry experience can be source of different types of learnings (Albertoni et al., 2019) or cognitive biases (Elia et al., 2019) that affect the entry mode misalignment. Accordingly, we invite future research to study additional contingencies and antecedents of the relationship between theoretically aligned entry modes and performance.

At the same time, our analyses also suggest that experience deriving from the combination of both failure and different activities is actually associated with the selection of theoretically aligned entry modes. Thus, while gaining the necessary motivation to search for heterogeneous,



non-redundant knowledge may spur riskier outcomes (Rodan and Galunic, 2004; Rosenkopf and Nerkar, 2001), too much complexity deriving from both failure and different activities is likely to make the search for new knowledge increasingly challenging and unrealistic. Accordingly, decision makers will rather be driven toward well-known practices and routines, especially as there are significant costs attached to the act of searching for new solutions (Levinthal, 1997; Hansen, 1999; Paruchuri, 2010). Future research could therefore further investigate how different types of experience prompt decision makers to search for new and novel solutions when making entry mode decisions, but also understand the costs attached to such processes.

Third, as already shown by Buckley et al. (2007) for location choices, we provide evidence that also the entry mode choice can be the result of a decision-making procedure arising from the combination of both the rational and the internationalization process approaches. More specifically, we show that the latter does not necessarily substitute the former when firms gain experience, since the entry mode can fit the theoretical predictions even when firms benefit from learning and acculturation processes arising from previous offshoring initiative, such as in case of successful experiences or experiences within the same function. In this sense, the internationalization approach becomes complementary to the rational approach, by providing increasing legitimacy to the latter.

In conclusion, we believe our idea is rather simple: while decision makers need impetus (i.e. underperforming or out-of-comfort-zone experience) to start searching for riskier and non-traditional solutions (which we argue materialize in theoretically misaligned entry modes choices), too much impetus is only likely to make the search process too complex and thus make decision makers wanting to instead continue with old practices (which we argue materialize in theoretically

aligned entry modes choices). While we have studied this idea in the context of international entry-mode decisions, we believe the theory is generalizable to other contexts of experience.

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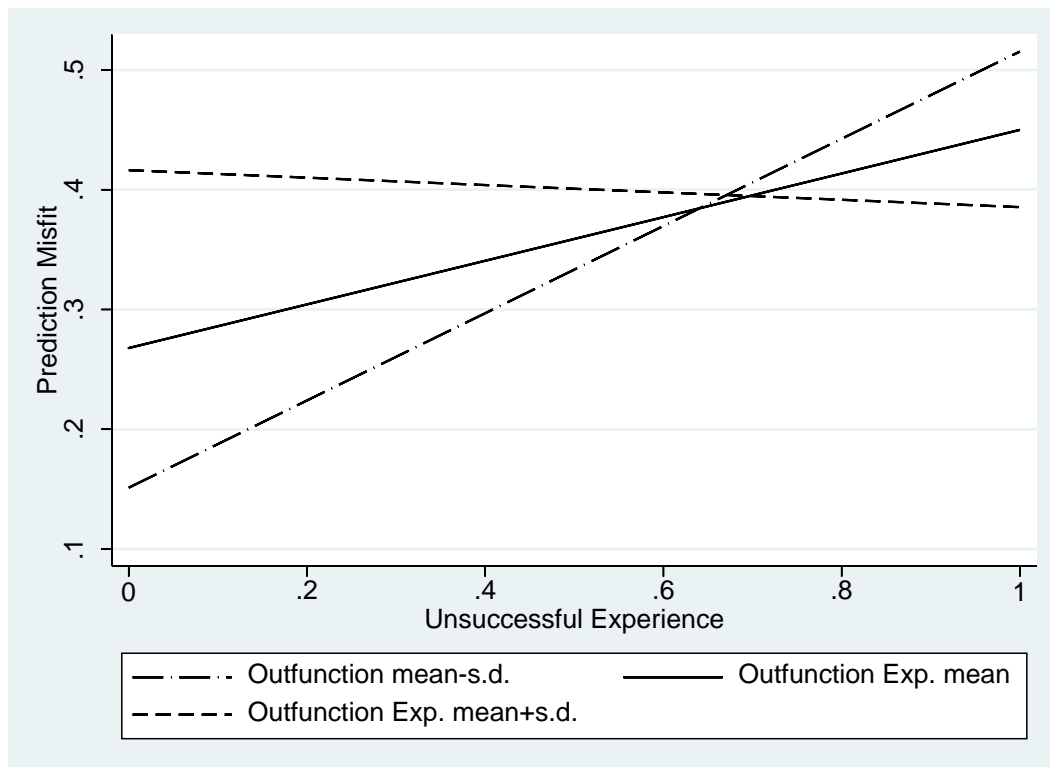
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## FIGURES

**Figure 1: Types of experience and entry mode misalignment**

		Past performance	
		Over-performance	Under-performance
Activity relatedness	Similar	Theoretically <i>compliant</i> entry mode choice	Theoretically <i>misaligned</i> entry mode choice
	Different	Theoretically <i>misaligned</i> entry mode choice	Theoretically <i>compliant</i> entry mode choice

**Figure 2: Plot of the interaction effect**





## TABLES

**Tables 1: Home countries**

<b>Home countries</b>	<b>Observations</b>	<b>%</b>
Belgium	60	10.71
Denmark	1	0.18
France	3	0.54
Germany	1	0.18
Netherlands	96	17.14
Spain	22	3.93
United Kingdom	8	1.43
United States	369	65.89
<b>Total</b>	<b>560</b>	<b>100</b>

**Tables 2: Host countries**

<b>Host countries</b>	<b>Observations</b>	<b>%</b>
Africa <sup>a</sup>	7	1.25
Asia (except India and China) <sup>b</sup>	74	13.21
Australia and New Zealand <sup>c</sup>	4	0.71
Central and South America <sup>d</sup>	41	7.32
China	60	10.71
Eastern Europe <sup>e</sup>	57	10.18
India	204	36.43
Middle East (Israel)	1	0.18
North America (Including Mexico) <sup>f</sup>	38	6.79
Western Europe <sup>g</sup>	74	13.21
<b>Total</b>	<b>560</b>	<b>100</b>

<sup>a</sup> Africa includes South Africa (5) and Morocco (2)

<sup>b</sup> Asia includes Philippines (42), Malaysia (9), Indonesia (4), South Korea (4), Japan, Singapore, Taiwan and Thailand (3 each), Vietnam (2) and Pakistan (1)

<sup>c</sup> Australia counts 3 observations, New Zealand 1 observation.

<sup>d</sup> Central and South America includes Brazil (14), Argentina and Costa Rica (7 each), Colombia and Jamaica (3 each), Ecuador, Peru and Uruguay (2 each) and El Salvador (1).

<sup>e</sup> Eastern Europe includes Poland (15), Romania (11), Russia (10), Hungary (9), Czech Republic (8) and Slovakia (4).

<sup>f</sup> North America included Mexico (14) and U.S. (10).

<sup>g</sup> Western Europe includes The Netherlands (12), Germany (11), UK (10), France and Ireland (8 each), Spain (8), Italy and Norway (4 each), Sweden (3), Denmark (2) and Austria, Belgium, Finland, Luxembourg, Portugal and Switzerland (1 each).

**Tables 3: Business functions**

<b>Business functions</b>	<b>Observations</b>	<b>%</b>
Call centre/Customer contact	90	16.07
Engineering Services	60	10.71
Finance/Accounting	54	9.64
Human Resources	15	2.68
Information Technology	122	21.79
Legal Services	5	0.89
Marketing and Sales	46	8.21
Product Design	30	5.36
Research & Development	43	7.68
Software Development	48	8.57
Supply Chain and Facilities	47	8.39
<b>Total</b>	<b>560</b>	<b>100</b>

**Table 4: Industries**

<b>Industry</b>	<b>Observations</b>	<b>%</b>
Aerospace and Defence	3	0.54
Arts, Entertainment and Recreation	2	0.36
Automotive	14	2.5
Construction	1	0.18
Energy, Utilities and Mining	5	0.89
Finance and Insurance	65	11.61
Healthcare	2	0.36
Manufacturing	113	20.18
Other	47	8.39
Pharmaceuticals and Life Sciences	16	2.86
Professional Services	50	8.93
Retail and Consumer Goods	24	4.29
Software and IT services	154	27.5
Telecommunications	36	6.43
Transportation and Logistics	28	5
<b>Total</b>	<b>560</b>	<b>100</b>

**Table 4: Exploratory Factor analysis of the host-country variables**

<b>First order construct</b>	<b>Items</b>	<b>Source</b>	<b>Loading</b>	<b>Alpha</b>
<b>Political Stability</b>	Political Stability and Absence of Violence/Terrorism	WGI	0.8783	<b>0.97</b>
	Government Effectiveness	WGI	0.8556	
	Regulatory Quality	WGI	0.9011	
	Rule of Law	WGI	0.8859	
	Control of Corruption	WGI	0.8544	
<b>Market Attractiveness</b>	Gross Domestic Product	WCY	0.9864	<b>0.794</b>
	Gross Fixed Capital Formation	WCY	0.9519	
	Direct Investment Inflows Inward	WCY	0.8724	
	Government Consumption Expenditure	WCY	0.9726	
	Household Consumption Expenditure	WCY	0.9698	
<b>Low cost of labor</b>	Remuneration Call Center Agent	WCY	0.7480	<b>0.785</b>
	Remuneration Manufacturing Worker	WCY	0.7606	
	Remuneration Department Head	WCY	0.7254	
	Remuneration Personal Assistant	WCY	0.7622	
<b>Human Resources</b>	Information Technology Skills	WCY	0.8036	<b>0.924</b>
	Qualified Engineers	WCY	0.9310	
	Skilled Labor	WCY	0.9000	

**Table 5: Correlation matrix and descriptive statistics of equation (a) of step (I) and equation (b) of step (II).**

Variables	1)	2)	3)	4)	5)	6)	7)	8)	9)	10)	11)	12)	13)	14)	15)
1) <i>Outsourcing</i>	1.000														
2) <i>Entry Misalignment</i>	-0.047	1.000													
3) <i>Offshoring Experience</i>	-0.107	0.050	1.000												
4) <i>High Value-Added Functions</i>	-0.035	-0.102	-0.011	1.000											
5) <i>Cultural Distance</i>	0.012	0.047	0.152	-0.024	1.000										
6) <i>Host Political Stability</i>	-0.213	-0.085	0.126	0.024	-0.214	1.000									
7) <i>Host Market Attractiveness</i>	-0.056	-0.078	0.045	0.076	0.105	0.137	1.000								
8) <i>Host Low cost of labor</i>	-0.088	-0.083	0.141	-0.035	-0.014	0.467	-0.028	1.000							
9) <i>Host Human Resources</i>	0.119	0.049	-0.171	-0.057	-0.289	-0.470	-0.263	-0.448	1.000						
10) <i>Market-Seeking</i>	-0.255	0.035	0.186	0.165	0.028	0.206	0.047	0.182	-0.183	1.000					
11) <i>Efficiency-Seeking</i>	-0.094	-0.051	0.221	-0.054	0.019	0.112	-0.066	0.136	-0.070	0.217	1.000				
12) <i>Human Resource-Seeking</i>	0.053	0.021	-0.153	0.113	-0.083	-0.008	0.086	0.017	-0.006	0.020	0.028	1.000			
13) <i>Company Size</i>	0.076	-0.073	0.086	-0.050	-0.056	-0.238	-0.192	-0.128	0.237	-0.173	0.106	0.032	1.000		
14) <i>Age of the Initiative</i>	-0.121	-0.069	-0.121	0.020	-0.045	0.205	-0.082	0.215	-0.028	0.071	0.057	-0.096	-0.009	1.000	
15) <i>Home U.S.A.</i>	0.213	-0.050	-0.143	0.039	-0.002	-0.358	-0.056	-0.293	0.251	-0.267	-0.094	0.271	0.463	-0.117	1.000
Observations	560	560	560	560	560	560	560	560	560	560	560	560	560	560	560
Mean	0.520	0.334	2.443	0.238	2.086	-0.845	0.432	-0.510	0.703	2.518	3.346	3.670	2.068	8.200	0.659
Std. Dev.	0.500	0.472	3.681	0.426	1.085	0.984	1.134	0.842	1.368	1.425	1.322	1.223	0.765	4.606	0.474
Min	0.000	0.000	0.000	0.000	0.020	-2.121	-0.685	-1.519	-2.625	1.000	1.000	1.000	1.000	3.000	0.000
Max	1.000	1.000	21.000	1.000	4.835	1.723	6.292	2.738	2.176	5.000	5.000	5.000	3.000	47.000	1.000

**Table 6: Correlation matrix and descriptive statistics of equations (c) and (d) of step (II).**

Variables	1)	2)	3)	4)	5)	6)	7)	8)	9)	10)	11)	12)	13)	14)	15)	16)
1) <i>Entry Misalignment</i>	1.000															
2) <i>Unsuccessful Experience</i>	0.026	1.000														
3) <i>Out-function Experience</i>	0.132	0.042	1.000													
4) <i>Host Country Experience</i>	0.079	0.032	0.520	1.000												
5) <i>High Value-Added Functions</i>	-0.152	0.154	-0.001	0.000	1.000											
6) <i>Cultural Distance</i>	0.062	0.048	-0.115	-0.131	-0.032	1.000										
7) <i>Host Political Stability</i>	-0.110	-0.076	-0.210	-0.360	-0.019	-0.206	1.000									
8) <i>Host Market Attractiveness</i>	-0.133	0.071	0.000	-0.033	0.121	0.072	0.113	1.000								
9) <i>Host Low cost of labor</i>	-0.116	-0.107	-0.243	-0.373	-0.064	-0.105	0.433	-0.043	1.000							
10) <i>Host Human Resources</i>	0.112	0.012	0.260	0.357	-0.097	-0.256	-0.425	-0.288	-0.399	1.000						
11) <i>Market-Seeking</i>	0.009	-0.097	0.073	-0.135	0.134	-0.009	0.195	0.043	0.181	-0.155	1.000					
12) <i>Efficiency-Seeking</i>	-0.007	0.117	0.106	-0.134	-0.074	-0.022	0.141	-0.091	0.122	-0.080	0.198	1.000				
13) <i>Human Resource-Seeking</i>	-0.004	0.041	-0.096	-0.054	0.123	-0.129	0.031	0.069	0.031	-0.054	-0.080	-0.036	1.000			
14) <i>Company Size</i>	0.004	0.008	0.152	0.114	-0.015	-0.093	-0.288	-0.194	-0.191	0.291	-0.212	0.038	0.045	1.000		
15) <i>Age of the Initiative</i>	-0.042	-0.196	-0.109	-0.187	-0.003	0.008	0.196	-0.052	0.166	-0.048	0.153	0.116	-0.162	-0.063	1.000	
16) <i>Home U.S.A.</i>	0.045	0.139	0.092	0.279	0.051	0.030	-0.368	-0.030	-0.336	0.208	-0.395	-0.255	0.315	0.446	-0.274	1.000
Observations	320	320	320	320	320	320	320	320	320	320	320	320	320	320	320	320
Mean	0.325	0.360	0.671	0.249	0.238	2.190	-0.759	0.464	-0.420	0.534	2.588	3.522	3.584	2.178	7.506	0.681
Std. Dev.	0.469	0.419	0.377	0.381	0.426	1.146	1.021	1.180	0.870	1.370	1.447	1.259	1.291	0.740	3.569	0.467
Min	0.000	0.000	0.000	0.000	0.000	0.020	-2.121	-0.685	-1.519	-2.625	1.000	1.000	1.000	1.000	3.000	0.000
Max	1.000	1.000	1.000	1.000	1.000	4.835	1.723	6.292	2.672	2.137	5.000	5.000	5.000	3.000	37.000	1.000

**Table 7: Results of Probit regressions: step (I) (outsourcing), step (II) (entry misalignment)**

Variables	Step I	Step II		
	Model (a)	Model (b)	Model (c)	Model (d)
<i>Offshoring Experience</i>	-0.004 (0.819)	0.031 <sup>†</sup> (0.069)		
<i>Unsuccessful Experience</i>			0.460* (0.034)	1.738*** (0.001)
<i>Out-function Experience</i>			0.649* (0.017)	1.240*** (0.000)
<i>Host Country Experience</i>			-0.155 (0.544)	-0.145 (0.574)
<i>Unsuccessful Experience * Out-function Experience</i>				-1.746** (0.004)
<i>High Value-Added Functions</i>	0.071 (0.607)	-0.350* (0.015)	-0.502* (0.015)	-0.555** (0.008)
<i>Cultural Distance</i>	-0.025 (0.672)	0.026 (0.662)	0.057 (0.449)	0.072 (0.353)
<i>Host Political Stability</i>	-0.230*** (0.004)	-0.092 (0.261)	-0.114 (0.241)	-0.098 (0.309)
<i>Host Market Attractiveness</i>	-0.065 (0.240)	-0.118 <sup>†</sup> (0.070)	-0.227** (0.003)	-0.227** (0.001)
<i>Host Low cost of labor</i>	0.055 (0.505)	-0.150 <sup>†</sup> (0.081)	-0.154 (0.193)	-0.165 (0.197)
<i>Host Human Resources</i>	-0.041 (0.455)	0.035 (0.551)	0.018 (0.809)	-0.004 (0.952)
<i>Market-Seeking</i>	-0.142*** (0.001)	0.045 (0.310)	0.059 (0.329)	0.036 (0.563)
<i>Efficiency-Seeking</i>	-0.048 (0.307)	-0.062 (0.193)	-0.055 (0.412)	-0.064 (0.365)
<i>Human Resource-Seeking</i>	0.013 (0.815)	0.084 (0.119)	0.079 (0.268)	0.096 (0.182)
<i>Company Size</i>	-0.126 (0.190)	-0.051 (0.599)	0.102 (0.493)	0.116 (0.455)
<i>Age of the Initiative</i>	-0.021 (0.139)	-0.017 (0.276)	-0.017 (0.553)	-0.017 (0.545)
<i>Home U.S.A.</i>	0.259 (0.109)	-0.257 (0.133)	-0.287 (0.297)	-0.327 (0.248)
<i>Constant</i>	0.715 <sup>†</sup> (0.073)	-0.037 (0.928)	-0.387 (0.525)	-0.681 (0.293)
<i>Dummy Industries</i>	yes	yes	yes	yes
Observations	560	560	320	320
Chi-Square	103.135***	49.249***	50.834***	57.360***

<sup>†</sup> p<0.10, \* p<0.05, \*\* p<0.01, \*\*\* p<0.001. P-Values between brackets.