# SHACKLED TO THE STATUS QUO: WHEN DO MANAGERS ADOPT OR DEVIATE FROM THE PRIOR ENTRY MODE?

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**Abstract**

Due to the well-established nature of the entry mode literature and researchers' only marginal contribution to the field, scholars doubt over the need of more research on this topic. Yet some questions in the literature are unresolved, for example, why firms choose the past entry mode in the present. While the answer to this question has been provided broadly in the industry or firm context, the microfoundation of this repeat behavior, which is rooted in the managerial cognitive biases, has been overlooked. Taking a cognitive perspective and cue from psychology in decision making and adopting a scenario-based experimental approach, we show that such repetitive behaviors of managers are ingrained in status quo bias, a cognitive bias, which influences individuals to carry forward the past behavior. We also find that managers deviate from the prior export entry mode (from sales agent to sales subsidiary) because of a higher level of financial resources but stick to the FDI preferred mode (WOS as opposed to JV) when perceiving a larger market and a high political risk. The results of the study offer theoretical, managerial and policy implications.

## INTRODUCTION

Entry mode choice is one of the firm's key strategic decisions in internationalization (Ellis & Pecotich, 2001). The choice of entry mode comes before the development of local and international marketing programs, and therefore it has a major influence on the form that these programs will take (Papadopoulos & Martín, 2011). Due to the well-established nature of the entry mode literature and the wealth of theoretical knowledge accumulated by scholars in the field over the five past decades as well as scholars' only marginal contribution to the current literature, Shaver (2013, p. 23) raised the provocative question of whether we really need more entry mode studies. In response to his question, Hennart and Slangen (2015) replied, "Yes, we really do need more entry mode studies!" because the state of knowledge about entry mode is not yet complete. As it appears that firms keep mimicking their own past entry behavior (c.f. Chan & Makino, 2007; Vermeulen & Barkema, 2001; Yiu & Makino, 2002), one of the most pressing questions in entry mode literature (Hennart & Slangen, 2015) , has remained unanswered: ***What causes firms to replicate/deviate from past mode choices***? The scant research that is available (e.g. Davis et al., 2000; Lu, 2002; Swoboda et al., 2015) discusses the findings from the perspective of intra- and inter-firm or industry isomorphism, thus leaving the managerial perspectives away from such an important decision. In this study, therefore, we investigate: ***What drives managers to replicate prior entry mode in subsequent market entry and what causes managers to deviate from prior mode?***

There is a need for more explicit investigations of market entry decision-making in SMEs (Laufs & Schwens, 2014), given the research imbalance towards larger firms and away from smaller ones in IB (Schellenberg et al., 2018). Consequently, most studies that investigated SMEs' international market entry decision, although limited in number, largely applied the same theories that have been used to explain large MNC entry decisions (e.g. The Uppsala-model, the Eclectic Paradigm, Transaction Cost Economics, and Institutional Theory) (Laufs & Schwens, 2014). In a similar vein, Papadopoulos and Martin (2011) in their review of international market selection (IMS) literature identified that most IMS studies deal with either SMEs that export or MNCs that adopt foreign direct investment (FDI). They identified a near-total lack of interaction between the two areas and in line with Dunning (1998) they suggest that a greater interchange between FDI-focused location theory and export-focused IMS theory could benefit both. The same applies to the entry mode literature and therefore, in this study, we have included both exporting entry modes (i.e. sales agent vs. sales subsidiary) and FDI entry modes (WOS vs. JV), which will contribute to our understanding of these two different types of entry mode decisions.

Furthermore, entry mode literature tends to focus more on the entry mode choice of firms but less on the issue of how and why firms change entry modes (Pedersen et al., 2002; Swoboda et al., 2011). While more research on mode change can improve our understanding of the internationalization process (Petersen & Welch, 2002) and would be interesting from a managerial point of view as to when imitate or deviate from the decision of others (Swoboda et al., 2011), only little attention has been given to this issue. Research available on this topic mostly concerns mode increase (i.e. changes from an initial mode to a higher committed mode: Pedersen & Petersen, 1998) with mode reductions (i.e. changes from an initial mode to a lower committed mode: Swoboda et al., 2011) having a minimal attention.

In both MNC and SME research streams, scholars have mainly overlooked the role of the key decision maker(s) (Kogut et al., 2002; Laufs & Schwens, 2014; Papadopoulos & Martín, 2011). The decision maker's characteristics drive organizational strategy, whether in SMEs (Francioni et al., 2015) or in MNCs (Mellahi & Collings, 2010); hence, the individual's personal enthusiasm for overseas expansion and their international mindset affect internationalization decisions (Zahra et al., 2005). To delve into managers' mindset and mental models, cognitive approach including 'fast and frugal' heuristics and biases seem to be very promising as it can explain why managers adopt risky endeavors (Busenitz & Barney, 1997; Palich & Bagby, 1995) or avoid. Entry mode selection is also a boundedly rational decision (Simon, 1991) – that is, the rationality of decision makers is constrained by their cognitive limitations, their limited amount of time for decision making, the market information they have, and the imperfections of available decision-making models (Papadopoulos & Martín, 2011). Although many researchers continue to use rationality assumptions in their models, bounded rationality, cognitive limitations, biases, and other behavioral findings suggest that models relying on choices made by rational decision-makers are no longer coherent (Aharoni et al., 2011). While a limited answer has been given, and this is provided broadly in the industry or firm context in terms of imitative behavior to fit intra- and inter-firm or industry isomorphism (Davis et al., 2000; Oehme & Bort, 2015), the internal perspective in terms of managers' cognition in such repeated behavior has so far been ignored. Given the fact that "[l]ittle is known about how managers actually choose combinations of modes and evaluate the applicability of different mode packages" (Benito et al., 2009; p. 1467), we ''must consider the biases and dispositions of their [firms'] most powerful actors – their top executives'' (Hambrick, 2007, p. 334) if we want to understand entry mode decisions of firms (Laufs & Schwens, 2014). Therefore, a cognitive approach seems to be useful in entry mode research. Whatever research is available in the entry mode literature involving prior or preferred mode in subsequent market entry looks at the external attribution of reasons for such practice (inter- and intra-firm or industry isomorphism) which is ex-post and so uncontrollable, having no direct implication for managers. By contrast, we take an internal attribution approach by way of managers' cognitive bias, which is ex-ante and so is controllable.

We do not have a clear and complete picture of the current state of knowledge into the heuristics and cognitive biases of managers (Cossette, 2015), especially their role in assessing foreign environments and determining internationalization decisions remains underexplored and poorly understood (Aharoni et al., 2011; Benito et al., 2009; Hennart & Slangen, 2015). Therefore, to contribute to the "detailed knowledge of how entry decisions are actually made" (Hennart & Slangen, 2015, p. 119), we need to take a cognitive perspective because it will allow researchers to probe manager-entrepreneurs' motivations to internationalize and capture their mental models (Zahra et al., 2005) and the findings will help managers to overcome the mental barriers involved in this process.

Accordingly, we focus on status quo bias, a common individual cognitive bias defined as a tendency of people to prefer things to stay the same by doing nothing or by sticking with a decision made previously (Samuelson & Zeckhauser, 1988). In their decision to choose a previously used entry mode, managers are likely to be influenced by status quo bias. Research shows mode choices are likely to be replications of prior choices made by the firm itself and its peers (Chan & Makino, 2007; Vermeulen & Barkema, 2001; Yiu & Makino, 2002). The more the managers emphasize on maintaining the *status quo* in a strategic decision-making process, the more likely they will be exposed to limited alternatives and tend to bring prior hypotheses to decisions (Das & Teng, 1999). Thus, to address the challenges described above, we aim to apply cognitive theory to explain the entry mode decisions of international managers.

As we have already explained, in this study, we include both exporting and FDI entry modes and teased out when managers tend to apply the same mode or deviate from it. While, according to the transaction cost theory (TCT), firms first decide between exporting and FDI entry modes, in this study, our focus is not on when managers choose between these two different types of entry modes (inter-class), but on when they trade-off between the same type of modes (intra-class). In the first phase, we show how the status quo bias affects the subsequent entry mode decisions in exporting. As well indicated by the previous/existing entry mode choice literature, entry mode choice decisions are affected by firm's internal and external factors. It is well known that internal factors, like resources (especially financial) play a very important role in exporting mode decisions. Resource constraints may prevent firms from adopting the best entry mode according to transaction costs (Rugman & Verbeke, 1992) or resource-based theories (Sharma & Erramilli, 2004). This raises the important question of whether SMEs really face an entry mode "decision," or whether, owing to financial resource constraints, they actually have no choice (Bruneel & De Cock, 2016) but to adopt low committed indirect exporting mode such as sales agent. Bruneel & De Cock (2016) posit that studies that focus on the role of financial resources might deepen our understanding of how these resources shape SME entry mode decisions and subsequent changes for internationalizing SMEs. Therefore, we argued that prior entry mode decision (a choice between a sales agent and a sales subsidiary) would be moderated by the financial resources of the firm. Next, in the second phase, by comprising JV and WOS, we show how the status quo bias affects the subsequent entry mode in FDI decisions. In doing so, we also include an external factor (a host market characteristic, i.e. market size) as a moderator in this relationship. The market potential of the host country has a positive impact on the choice of entry modes requiring higher resource commitments, as indicated by other studies (e.g. Agarwal & Ramaswami, 1992, Kwon & Konopa, 1993). Existing literature and research also suggests that the present and projected size of the target market country are important influences on entry mode selection (Root, 1994; Aharoni, 1966). The commonly examined issues relating to host market characteristics are attractiveness and market size of a host country (Sarkar and Cavusgil, 1996). Root (1994) suggests that small markets favor entry modes which require a low break-even sales volume (e.g. exporting) while markets with high sales potential justify the employment of high resource commitment entry modes (e.g. FDI modes). A number of empirical studies have examined the impact of market size on the choice of market entry mode. In a study of U.S. manufacturing firms' choice of exporting or FDI modes, Kwon & Konopa (1993) confirmed that the target market size of firms adopting FDI modes was higher than the target market size of those adopting exporting methods.

We also include another host market characteristic, namely political risk, because extant research identifies political risk in the foreign market as influencing the firm's foreign market entry decision using equity entry mode (Kobrin et al., 1980; Laufs et al., 2016; Morschett et al., 2008) in line with TCT. Political environment, which captures governments (and government policies), is a critical factor for TNCs' FDI decisions in terms of market entry and mode of entry because of governments' ability to exert control over critical resources and policies that shape a TNC's competitive advantage (Henisz & Swaminathan, 2008; Hillman & Hitt, 1999). Political environment has become even more important in today's international business where the Brexit vote in the UK, the revocation of the Trans-Pacific Partnership and the renegotiation of NAFTA in the US, and the trade war between the US and China have given rise to more populist and strictly politically-controlled governments across the globe. We can hardly study international business without accounting for the global socio-political issues.

Given the insufficient production of "interesting research" in terms of innovativeness and development of theory, while being both usable and rigorous, scenarios methodology as a scholarly form of inquiry is one way in which researchers can generate "interesting research" (Ramirez et al., 2015). To overcome the overarching criticism that IB research is ''inward-looking'' (Buckley et al., 2017), we have lent to cognitive biases in entry mode decisions and teased out cognitive biases through scenario-based experimental research based on data collected from international managers in a developing country.

## LITERATURE REVIEW AND HYPOTHESES

### Prospect Theory, Status Quo Bias and Entry Mode Choice

Heuristics and biases are cognitive tools of human intuition (Kahneman & Tversky, 1982). By focusing on individual's attention on specific cues, heuristics and biases enable, rather than inhibit, knowledge and skill application to seemingly different contexts, without engaging in the effort-intensive tasks of identifying and weighing large information sets. Cognitive heuristics and biases may act as mental shortcuts to make decisions in a shorter period of time and at the same time, they may induce manager-entrepreneurs to some types of biases (Cossette, 2015). Cognitive biases are systematically associated with strategic decision processes and different decision processes tend to accentuate particular types of cognitive bias (Das & Teng, 1999). Firms learn from prior choices (e.g. Padmanabhan & Cho, 1999; Vermeulen & Barkema, 2001) and managers often follow a particular entry mode in their initial internationalization and continue to follow the same decision in the subsequent entry.

Since individuals' cognition and consequently manager-entrepreneurs' is limited, neither they are able to search for information in a systematic and comprehensive way nor can interpret this information precisely (Busenitz & Barney, 1997). This would result in the occurrence of cognitive biases and heuristics in managerial decision-making (Keh et al., 2002). Heuristics are the shortcuts and rule of thumb caused by data processing errors. They are quite functional to alleviate the cognitive efforts for making the decision process easier, which may otherwise require too much time and mental resources. On the other hand, heuristics sometimes cause inevitable biases (Hirshleifer, 2001; Tversky & Kahneman, 1974). Cognitive psychology researchers ascertain that shortcuts are employed rather than cognitive capacity since processing data is too hard when excessive information is installed. Furthermore, insufficient information and time for a careful evaluation also force investors to use the shortcuts (Aronson, 1999).

In behavioral economics, unlike what conventional economic theories suggest, scholars argue that people are not rational agents when making investment decisions. Humans are prone to various cognitive biases. For example, “individuals have a strong tendency to remain at the status quo, because the disadvantages of leaving it loom larger than advantages” (Kahneman et al., 1991, p. 197-8), referred to as the *status quo bias*. This roots in prospect theory according to which decision makers use heuristics – mental shortcuts – to make decisions by following three principles (Kahneman & Tversky, 2013): first, their evaluation is relative to a *reference point*; second, they are *loss averse*; third, they follow the principle of *diminishing sensitivity*. Reference points matter and losses loom larger than corresponding gains; Preferences for status quo is a consequence of loss aversion.

According to the prospect theory, decision-makers are affected by a status quo, *a reference point*, from which they make a conclusion whether a future choice is desirable. Often times, decision makers, in order to avoid losses, stick to their status quo, as they see a deviation from it as a loss. For instance, if an entry mode has proved to be successful in the past, it is regarded as the status quo. On the other hand, companies may have to conform to internal as well as external isomorphic pressures (Davis et al., 2000). Therefore, they attempt to gain legitimacy by imitating the ways in which incumbents in given markets operate (Chan & Makino, 2007). Thus, they prefer to use a certain entry mode. Therefore, whatever the reason is, this becomes their *default option*, their status quo.

Deviation from either – reference point and default option – comes with resistance because decision makers are loss averse. However, according to the last principle of prospect theory, diminishing sensitivity, the wealth status of a decision maker matters when taking the risk – that is, deviating from the status quo. As an example, the subjective difference between $900 and $1000 is much smaller than the difference between $100 and $200. Therefore, when managers are to make entry mode decisions, the current financial status of their firm affects whether they deviate from the status quo.

De Villa et al. (2015) suggest that the political environment as a multilevel construct is relevant to market entry mode studies. This construct has not been accurately addressed in the dominant six schools of thought in market entry modes literature. The literature review by De Villa et al (2015) show that the market entry modes literature continues to struggle with the question of how TNCs should factor host country political environments into their market entry mode decisions.

**Prior Entry Mode (Exporting and FDI) and the Status Quo Bias**

Extant literature provides no explanation on why and how managers are affected by their past entry mode experience. However, scholars posit that the initial internationalization mode choices of firms can have a lasting effect on subsequent internationalization behavior (Oehme & Bort, 2015). Benito et al. (2009) discuss that a firm's past experience with a given mode may lead to "mode bias". They, however, did not examine this empirically. We argue that prior experience reinforces imitative/repeated behavior, thus encourages firms to conform to past mode decisions, which we can explain by status quo bias (SQB). Moreover, firms may also have a preferred entry mode, which is a dominant mode of entry a firm uses to enter different markets, due to the nature of the product or the industry (Brouthers & Brouthers, 2003). This may determine the subsequent entry mode in international markets, which can also be explained by SQB. Scholars argue that decision makers choose prior mode ritualistically to establish inter- and intra-firm or local external legitimacy in host markets (Ang et al., 2003; Yiu & Makino, 2002). Therefore, preferred entry mode is used as a default option, a status quo, and managers are likely to use the default option when entering a new market. This default option is naturally a prior experience.

We have included both exporting and FDI entry modes in this study, as explained earlier. In the exporting entry mode, we include foreign sales agent and sales subsidiary and each of these modes has been considered as the preferred mode individually in our experiment because it cannot be claimed with certainty that all exporting firms prefer either sales agent or sales subsidiary. This approach has also benefited us to explain mode change, both increase, and reduction.

By contrast, in FDI entry mode, we have chosen WOS as the preferred mode by firms. The FDI entry mode choice between WOS and JV is one of the most important and challenging decisions for any firm seeking to enter foreign markets (Gomes-Casseres, 1989; Madhok, 1998). The choice between JVs and WOSs arises once the foreign firm decides to enter the host market through an equity foreign direct investment (FDI), that is, once the firm decides to go abroad by investing equity and setting up a subsidiary in the target country. A second decision must then be made: whether to share the ownership of such an affiliate with other firms (equity JV) or to maintain full ownership (WOS). Thus, WOS comes as a natural decision for the firms as the preferred mode in the international expansion though the host country situations and other variables may act as decisive factors in deviating from such a preferred mode. Cui & Jiang (2009) mentioned that it is well established in FDI entry mode literatures that WOS is the preferred entry mode for a high level of control and intra-firm integration (Hill et al., 1990). Again, we can also claim this by the theoretical reasoning of TCT. Hill et al. (1990) specified two sources of transaction costs in JV for which firms prefer a WOS to JV: (1) the costs associated with drafting, negotiating, monitoring, and enforcing a comprehensive contingent claims contract to police the venture agreement and (2) The expected loss anticipated by the MNC due to unanticipated contingencies arising and subsequent opportunism by the partner. Therefore, we hypothesize the following:

> **H1.** *Ceteris paribus*, managers' positive experience with a given entry mode leads to a higher propensity of choosing that mode.

**The Role of Financial Resources**

Status quo bias, however, may be mitigated by the wealth status of the decision-maker, according to the principle of *diminishing sensitivity* (Tversky & Kahneman, 1992). Managers in a firm with financial slack resources, however, may be less affected by prior mode experience. Managers are more likely to take risks when the firm has high levels of wealth or slack (Bromiley, 1991; MacCrimmon & Wehrung, 1986) and so they are more likely to deviate from the status quo of imitating the low committed and least risky mode (e.g. sales agent) to a more committed and riskier mode (e.g. sales subsidiary). Sales subsidiary can be considered as riskier than sales agent from an investment perspective because sales agent does not involve financial investment and sales subsidiary might have uncertain outcomes (Lee & Caves, 1998).

By applying a longitudinal event history analysis of 977 German biotechnology firms, Oehme and Bort (2015) found that central network positions that are associated with superior information access, enhanced legitimacy and status might promote deviating behavior in imitating internationalization modes. However, this does not clarify what types of preferred mode the firms follow and how different preferred modes are affected by different boundary conditions. More specifically, we have hypothesized that low committed preferred mode will be deviated by adopting a higher committed mode in exporting when managers have higher financial slack resources.

> **H2.** *Ceteris paribus*, financial resources moderate the relationship between positive past experience with a given entry mode and the selection of that mode, such that the higher the financial resources, the higher the propensity of choosing higher commitment mode (i.e. sales subsidiary as opposed to sales agent).

**Effects of External Host Country Factors**

The attractiveness of a foreign market is seen as a predominant factor in market selection and in the choice of a market entry mode (Morschett et al., 2010). Generally, firms are assumed to enter attractive markets via WOS because this is expected to provide the greatest potential for long-term profit (Taylor et al., 1998; Brouthers, 2002; Randøy & Dibrell, 2002). Most authors argue that increasing market size leads to an enhanced resource commitment in the country, i.e., market size is positively related to internalization (e.g., Davidson & McFetridge, 1985; Ekeledo & Sivakumar, 1998; Erramilli et al., 1997). A large host country market implies that companies can expect returns that are commensurate with the higher risk associated with the commitment of resources (Agarwal, 1994). Higher returns are expected to come from the opportunity to gain economies of scale (Agarwal & Ramaswami, 1992), based on the assumption that a high proportion of the costs of internalization is fixed (Buckley & Casson, 1996; Chen & Hu, 2002).

Considering TCT, market size could be seen as a proxy for transaction frequency, which also enhances the firm's propensity to internalize (Williamson, 1985), resorting to a higher control entry mode.

Scholars argued decision makers chose prior mode ritualistically or to establish inter- and intra-firm or local external legitimacy. Preferred entry mode of the firm and the industry determines the subsequent entry mode in international markets. Companies may have to conform to internal as well as external isomorphic pressures (Davis et al., 2000), and so attempt to gain legitimacy by imitating the ways in which incumbents in given markets operate (Chan & Makino, 2007). Thus, the modes used initially by a firm in a foreign market will show some path dependence insofar as they will reflect the biases of managers. However, the initial mode considered is by definition but a starting point. A bigger foreign market does not incite or compel managers to bring about changes in the starting position, thus making them more prone to the status quo (i.e. WOS). Since managers already have experience in operating in foreign markets with WOS, they are more comfortable with this particular entry mode in exploiting a larger market, without risking themselves in dealing and sharing the profit with a partner in the host market.

Political risk, which refers to the likelihood of an unfavorable change in the governmental regime of a country or in the policies issued by the regime (Henisz, 2000; Miller, 1992), affects the entry mode choice. For instance, the higher the political risk, researchers have argued, the higher the propensity of MNCs to enter through JVs rather than through WOSs (Agarwal & Ramaswami, 1992; Akhter & Lusch, 1988; Delios & Beamish, 1999; Delios & Henisz, 2000; Hill et al., 1990). A politically unstable market is clearly risky. If firms decide to enter such a risky market under rational decision-making, then they are obviously more likely to deviate from the status quo (i.e. WOS) and go for a shared control entry mode (i.e. JV) to minimize the investment risk. Research also showed that companies prefer cooperative mode of entry in situations with higher country risk (Morschett et al., 2010). According to the status quo bias perspective, in such situations, managers will be less sensitive to their preferred entry mode to reduce uncertainties that may arise from the political risk in that particular market. Given the mechanism by which market size and political risk affect status quo bias, we hypothesize:

**H3**. *Ceteris paribus*, large (small) market size coupled with low (high) political risk will increase the propensity of choosing the preferred entry mode (here, WOS as opposed to JV) by managers.

## METHODS

**Procedure**. Given that there is no established measurement and this is the first research of its kind in IB, we had to develop the scenarios integrating existing theories. Therefore, after consulting the literature, we developed two sets of experiments, the first one for dealing with Hypotheses 1 (partly) and 2, which were specific to export entry modes and the second one for Hypotheses 1 (partly), 3 and 4, which were specific to FDI entry modes. In the first experiment, we have seven experimental groups in total and we designed between-group experiments. The first scenario is without any status quo option (control), in which we mentioned two (equally viable) available export entry modes (sales agent and sales subsidiary) through which the respondent could enter the next overseas market, but without any status quo option of previous or current experience with a particular entry mode. The second and third scenarios include the status quo option, sales agent and sales subsidiary, respectively. The remaining four scenarios deploy 2x2 between-subjects design, manipulating for financial resources (low/high) across two different export entry modes (sales agent/sales subsidiary).

The second experiment has five scenarios involving a choice between two FDI entry modes: JV and WOS. Similar to the first experiment, the first scenario in this experiment also involves a non-status quo situation, mentioning the two (equally viable) available FDI modes to choose for a new market entry. The remaining four scenarios having a fixed status quo option (i.e., WOS) form 2x2 between-subjects design having two manipulating variables: market size (low/high) and political risk (low/high).

The scenarios promoted respondents to imagine themselves as organizational decision makers in a given fictious firm considering the adoption of one of the entry modes. After each of the scenarios, we also asked respondents to briefly mention the reason why they had chosen the specific option. Each respondent received only one scenario from each of these two sets of experiments, which were randomized. Between scenarios, we provided one blank page by saying that ‘You are doing great! Please go to the next page’ to minimize the carryover effects, which are very common in traditional within-subjects group approach (Sniderman & Grob, 1996). Though we have two different scenarios having two different types of entry modes and situations with between-subjects design, we took extra precaution.

At the beginning of our questionnaire, we provided the concept definitions so that respondents could review them briefly and refresh their memories of the concepts we used in the study (see Appendix 1 for this). After the initial development of the questionnaire, we tested it with several academic experts and 16 managers and made the necessary changes as suggested. A native speaker also checked English language for consistency. In addition, via *Qualtrics*, an online platform, we pretested the questionnaire with 101 students from business schools in Finland, the UK, and Bangladesh. This pre-test worked well in terms of the clarity of the questions, readability, and the hypothesized relationships. The manipulation check at this stage was found satisfactory.

**Sample.** Data were collected from managers in internationalizing firms in Bangladesh, a developing country that has produced a large number of exporters in the apparel industry, in addition to pharmaceuticals, frozen foods, and leather goods. The country currently holds the second largest position in global apparel exports. 2000 exporting firms were randomly selected from the exporters’ directories of these industries. Due to emerging country context and low level of online access in Bangladesh, data were collected face-to-face through printed randomized questionnaires. Finally, we received 773 responses, which is 39% response rate.

**Dependent variable.** For the *dependent variable* in the first experiment, respondents were asked to make a choice between foreign sales agent and sales subsidiary on a 7-point Likert scale (1 = I would definitely choose a sales agent; 7 = I would definitely choose a sales subsidiary). The dependent variable in the second experiment is the same with only change in the choice of JV and WOS (1 = I would definitely choose a JV; 7 = I would definitely choose a WOS).

The *independent variable* in the first experiment, in scenarios 2 and 3, is the prior successful entry mode as the status quo, which is a dummy variable (0 = sales agent; 1 = sales subsidiary). This, together with the first neutral scenario, helped us test hypothesis 1. For the manipulation variables, we used indirect questioning considering its benefits in social science research (Fisher, 1993) and so that respondents do not guess the variables of interest very easily. For example, to measure 'market size' we did not explicitly use this term, rather we used 'sales potential'. For 'political risk,' we used the following description: The likelihood of the actions of current government to generate uncertainties, which may risk the future value of investments in this country (Coeurderoy & Murray, 2008).

Following this, in scenarios 4 to 7, we added financial resources, which is a dummy variable (0 = low financial resources; 1 = high financial resources). This helped in testing hypothesis 2. In the second experiment, the independent variable is the same as the first experiment with only change in the choice between JV and WOS (0 = JV; 1 = WOS). To measure market size, we also created a dummy variable (0 = small market size; 1 = large market size), and the same for the political risk (0 = low political risk; 1 = high political risk). These helped us to test hypotheses 3 and 4. The scenarios are included in Table 1 and 2.

***[Insert Tables 1 & 2 about Here]***

## ANALYSIS AND RESULTS

To test the first hypothesis, we ran three t-tests (see Table 3a). Test 1 reveals that first managers have a tendency to opt for a sales agent in a neutral situation; this could be because it is less risky. The second and third tests show that managers are more likely to choose the prior entry mode with which they have been successful. For example, Test 2 reveals that compared to a neutral situation, when managers have experience with sales subsidiary, they are more likely to choose it as an entry mode in a new market. In Test 3, sales agent and sales subsidiary as status quo are compared. The results show that managers are likely to opt for the status quo, be it sales agent or sales subsidiary. In addition, in Table 3b, tests 1-4 indicate that managers are likely to choose the status quo (i.e. WOS) regardless of other variables. This clearly indicates that managers are influenced by the status quo bias; therefore, Hypothesis 1 is confirmed.

***[Insert Table 3 about Here]***

To test the second hypothesis, we performed a two-way ANOVA (foreign sales agent/sales subsidiary x low/high financial resources). The results reveal a significant main effect of status quo, i.e. either of the export entry modes ($F(1, 569) = 6.645$, $p < 0.05$). Financial resource is also significant ($F(1, 569) = 26.06$, $p < 0.001$). Though the results show that the interaction term is not significant ($F(1, 569) = .315$, $p > 0.10$), with low financial resource having no significant effect on the adoption of the status quo, high financial resource has a significant positive effect on the adoption of sales subsidiary ($F(1, 569) = 12.98$, $p < 0.001$). As Figure 1 shows, when managers have high financial resource, they are likely to opt for sales subsidiary regardless of the status quo. This does not hold true in the case of low financial resource. Therefore, the second hypothesis is confirmed. Status quo bias affects the subsequent mode choice, but this is mitigated by financial resources a firm possesses, thus indicating the diminishing sensitivity to the status quo.

***[Insert Figure 1 about Here]***

To test the third hypothesis, we performed a two-way ANOVA (WOS: small/large market size x low/high political risk). The results reveal a significant main effect of market size ($F(1, 948) = 43.719$, $p < .001$). However, political risk is not significant ($F(1, 948) = .223$, $p > 0.10$), nor is the interaction term ($F(1, 948) = 0.519$, $p > 0.10$; see Table 3b). This provides partial support for hypothesis 3. As Figure 2 shows, whereas market size has a significant effect on the choice between JV and WOS, strengthening the probability of choosing WOS, political risk has only a marginal effect on the choice; hence, no effect on the status quo.

***[Insert Figure 2 about Here]***

## DISCUSSION

Scholars in international business and marketing have long studied the choice of market entry mode. Nevertheless, we are still uncertain what affects a manager’s decisions of a specific entry mode. We do not know about the managers’ cognitive biases when making decisions on entry mode choice. Does experience with a certain entry mode in the past affect managers' future decisions? Do managers prefer a certain entry mode, which affects their future entry mode decisions? Building on the theory in decision heuristics and biases in psychology, we set out to respond to the aforementioned questions. Specifically, we found that managers are in general prone to status quo bias, thus choosing the prior entry mode (whether that is an export or FDI entry mode) in subsequent market entries. This is in line with the research that successful experience leads to inertia and thus to status quo. For example, Hambrick et al. (1993) found that firm's current performance is positively related to executives' commitment to status quo.

However, in export entry mode, the availability of financial resources reduces managers' sensitivity to the status quo (i.e. a lower committed entry mode: sales agent) and they deviate from the status quo by choosing a sales subsidiary, which is a higher committed export mode. On the other hand, in FDI entry mode, managers are prone to the status quo bias (choosing a WOS) when they perceive a large host market. This is in line with Hernández and Nieto (2015) who reported using a database of European firms that market size is positively related to the willingness of the firm to dedicate more resources to this market.

A possible counter explanation is also offered in the literature. For the market-seeking purpose in high growth markets, a key issue is to establish an advantageous market position prior to competitors, known as first mover advantages (Frynas et al., 2006). Foreign investing firms may use an incumbent partner to gain a better competitive position rapidly (Kogut & Singh, 1988). The creation of a WOS may be too time-consuming to benefit from the increased market opportunities and therefore JVs with local partners may be preferred because at least, part of the operational capacity is already available (Bell, 1996). Therefore, to seize host country market opportunity, firms may prefer the JV entry mode that provides fast-track establishment when compared to the WOS entry mode (Cui & Jiang, 2009). However, our results indicate the managers' preference for a WOS in such a case, thus confirming the cognitive status quo bias they are prone to.

Our results also show that managers do not deviate from the status quo even if they perceive a higher political risk in the market. Though this is counter to the original hypothesis, this could be explained by developing country managers' risk experience in the home country markets and their capability of dealing with political risk in other similar markets. This corroborates to Quer et al. (2012) who reported that a high level of political risk does not discourage Chinese multinationals to adopt direct investment. Cuervo-Cazurra & Genc (2008) argue that these firms from developing countries have the ability to manage in difficult institutional conditions, a capability they develop in their home countries to survive and be successful, which provides them an edge over their developed country counterparts. Further cross-country research in a developed and a developing country setting can confirm this finding. This also confirms the findings of López-Duarte and Vidal-Suárez (2010) who report that political risk positively influences the likelihood of choosing WOSs as entry mode in a sample of Spanish firms investing abroad but not with Hernández and Nieto (2015) who indicated that entry in countries with lower levels of regulatory development than that of the origin is related to modes that require a lower resource commitment.

In this study, we address both theoretical and empirical gaps. Theoretically, first, we contribute to the IB literature by applying cognitive perspective to entry mode choice. While existing research, though very limited, suggests inter- and intra-firm or external isomorphic pressures to adopt the prior or preferred mode, our cognitive approach delves into individual managers, finds internally focused, and ex-ante bias at work in this process. Thus, we contribute to the microfoundations of entry mode decisions through the cognitive bias approach. Second, we have contributed to both fields of exporting and FDI focused research in IB. Differential impacts of status quo bias and its boundary conditions in export and FDI modes give us an enriched understanding of managerial cognitive processes in entry mode decisions. Finally, we also contributed to mode change literature by integrating two streams of research involving mode increase and reduction in response to the call for more research on mode changes to improve our understanding of the internationalization process (Swoboda et al., 2011). We also contribute methodologically by way of scenario-based experiments with cognitive perspective, which is underrepresented in IB and offers an opportunity to improve the evidence for causal relationships in IB research (Zellmer-Bruhn et al., 2016).

This eventually will help managers to make more sophisticated decisions in internationalization. For executives, this study indicates what critical factors they should consider when they stick to prior mode or switch to another mode. This research has uncovered the cognitive factor behind mode change inertia and therefore suggests effective ways to overcome them. From the research findings, manager-entrepreneurs can be aware of status quo bias that may limit them in internationalization decision, especially entry mode choices. Certain entry modes may be associated with more probability of success and better performance and ideal in certain situations, but in reality what manager-entrepreneurs do might not always reflect what they should be doing (Hennart & Slangen, 2015). Our study and its findings identify the situations in which most managers are likely to behave in a similar way. Under stable situations, managers are prone to status quo bias by repeating previously adopted entry mode in internationalization decision. Since this is a cognitive bias that uses a mental shortcut to deduce to a particular decision, there is no harm in it. However, managers must be aware of the certain firm and market-specific conditions to benefit from the optimal entry mode choice. Managerial awareness of options such as the availability of slack resources is of greater importance because options do not automatically lead to any decision and performance in the long run unless managers are aware of them and apply them consciously (Driouchi & Bennett, 2011). Knowing when to stick to prior entry mode and switch to another mode may constitute a key capability of a manager.

The motive of firms to enter a new market is not always the same. This is why entry mode is important in terms of matching with the specific objectives firms have in their mind in entering a particular market. For example, research showed that Chinese firms' FDI motives include either to exploit a competitive advantage in other emerging economies or to explore a competitive advantage in developed economies (Wright *et al.*, 2005). To fit to such contingencies, managers need to have a greater understanding of mode change requirements. Our results imply that in terms of export mode managers should go for mode increase (sales agent → sales subsidiary) when they have slack resources and vice versa. On the other hand, in terms of FDI mode, managers, especially from emerging countries, should stick to the status quo (i.e. WOS) even if they face a greater level of political risk in the target market.

Policymakers can design effective cognitive bias modification programs (Hallion & Ruscio, 2011) to train managers/entrepreneurs to overcome negative cognitive heuristics and biases. Policymakers may also take policy initiatives to encourage managers of mode change in optimal situations. The top management of internationalizing firms will also be benefited from the findings of this study. Now they can design and implement debiasing tools (Pronin et al., 2002) such as decision aids, from simple checklists to expert systems, spreadsheets or evaluation forms containing lists of criteria to facilitate the systematic evaluation of entry mode decisions (Petty & Gruber, 2011) without being biased to the prior entry mode.

## LIMITATIONS AND FUTURE RESEARCH

Like any research attempt, this study also suffers from some limitations, which offer further opportunities for researchers. We have included export entry modes such as sales agent and sales subsidiary as well as FDI modes such as JV and WOS. Other types of modes could also be included in future studies depending on the theoretical underpinnings and researchers' interest. Other boundary conditions could also have been included in the experiment; the mode change from sales agents to sales subsidiary may not only be due to financial resources but also due to knowledge accumulation in a market (Nicholas, 1983). Future research can include all other important reasons that may cause a mode change.

Aside from status quo bias, other cognitive heuristics and biases might be at work in repeating prior or preferred entry mode. For example, how heuristics like representativeness and biases like confirmation, availability and overconfidence may affect entry mode decision individually and jointly may be of research interest in the future. Future research should also examine how making decisions in a team may alter the status quo bias of individuals; for example, individuals may exhibit different biases or different degrees of bias when making decisions in a team, versus making them alone (Zhang & Cueto, 2017). Since culture and country differ, cross-country experimental comparison is also an interesting research avenue. Given that research on the market selection-entry mode relationship is scant (Papadopoulos & Martin, 2011), future research could address this, especially how market selection and entry mode decisions influence each other.

Although we explicitly or implicitly mention that previous successful experience leads to mode bias, unsuccessful experience may lead to a mode change. People learn from failure, not only from success but there is also research that reports that people learn only little from failures. For example, a study of poorly performing firms in two industries found that they generally did not alter their strategic orientations (Lant et al., 1992). Husted & Michailova (2002) observed, ‘individuals do not freely and openly share knowledge about the mistakes they have made’. They pointed to some reasons members of organizations do not discuss and hence do not learn from failures. One reason is fear that colleagues might blame those who participate in failed ventures, and another is a managerial hierarchy that reacts to failures by seeking and punishing culprits. Also, a bad experience may be a limited one-time experience and it again depends on the salience and the recentness of experience. Since failure experience in a particular country with a particular entry mode is a very critical issue and other variables might be linked with this failure, the inclusion of failure experience would complicate our study. Furthermore, we aligned with existing literature on the issue that firms/managers might have a preferred entry mode or a default mode in a particular industry or in a country to enter (Swoboda et al., 2015), thus we avoided this two-edged sword of success and failure. Future research may exclusively include this agenda and see how prior failure experience may have affected subsequent entry mode decisions, especially mode changes.

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## Figures

**Figure 1.** Interaction effect of financial resources and status quo on the adoption of sales subsidiary.

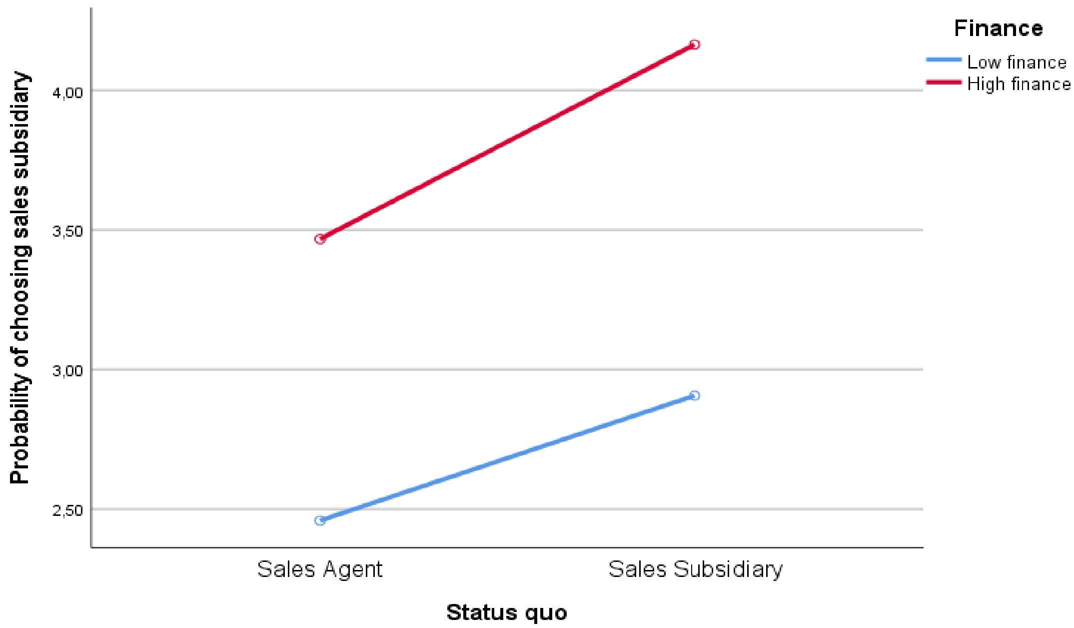
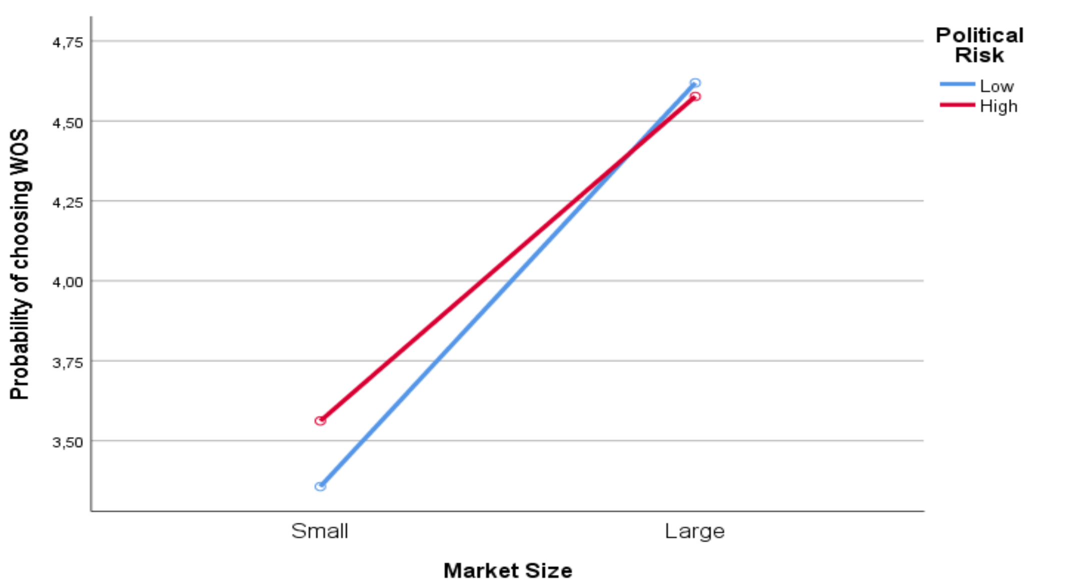



**Figure 2.** Interaction effect of political risk and market size on the adoption of WOS.



**Tables**

**Table 1: Scenarios involving export entry modes (sales agent vs. sales subsidiary)**

| **Prior entry mode** | **Scenario description** |
|---|---|
| Control: Non-SQ version (Scenario 1) | Imagine that you are considering entering a new market by exporting. You have concluded that you have two options to enter the new market: sales agent and sales subsidiary. Both options are **equally** viable. |
| Sales agent (sales subsidiary) as the SQ, no manipulation (Scenarios 2 & 3) | Imagine that you have been operating successfully with a **sales agent (sales subsidiary)** in most of your foreign markets. Now you are considering entering a new market by exporting. You have concluded that you have two options to enter the new market: sales agent and sales subsidiary. Both options are **equally** viable. |
| Sales agent (sales subsidiary) as the SQ + Manipulation of financial resources (2x2) (Scenarios 4, 5, 6 & 7) | Imagine that you have been operating successfully with a **sales agent** (**sales subsidiary**) in most of your foreign markets. Now you are considering entering a new market by exporting, but currently you have **low** (**high**) financial resources. You have concluded that you have two options to enter the new market: sales agent and sales subsidiary. Both options are **equally** viable. |

**Table 2: Scenarios involving FDI entry modes (WOS vs. JV)**

| **Preferred entry mode** | **Scenario description** |
|---|---|
| Control: Non-SQ version (Scenario 1) | Imagine that you operate in multiple international markets. Now you are considering entering a new market. You have concluded that you have two options to enter the new market: joint venture (JV) and wholly owned subsidiary (WOS). Both options are **equally** viable. |

| | |
|---|---|
| Wholly owned subsidiary (WOS) + Manipulation of market size and political risk (2 x2) (Scenarios 2 through 5) | Imagine that you operate in multiple international markets and you have chosen **wholly owned subsidiary (WOS)** to enter most of these markets. The country you are going to enter next has a **low** (**high**) sales potential. The likelihood of the actions of current government to generate uncertainties, which may risk the future value of investments, is very **low** (**high**) in this country. |

**Table 3. SQB and entry mode choice**

**(a) Experiment 1: SQB and Sales Agent (SA) vs Sales Subsidiary (SS) choice (the likelihood of selection)**

| Test no | Variables | N | Mean | SD | Paired Sample t-test |
|---|---|---|---|---|---|
| 1 | No SQ: Neutral | 131 | 2.24 | 2.06 | -1.045 |
| | SQ.: SA | 131 | 2.53 | 2.34 | |
| 2 | No SQ: Neutral | 139 | 2.34 | 2.15 | -6.073*** |
| | SQ: SS | 139 | 4.03 | 2.52 | |
| 3 | SQ: SA | 131 | 2.53 | 2.34 | -4.914*** |
| | SQ: SS | 131 | 4.02 | 2.55 | |

Note: *p < 0.1; **p<0.05; ***P<0.01; SQ = status quo; SA = sales agent; SS = sales subsidiary

**(b) Experiment 2: SQB and JV vs WOS choice (the likelihood of selection)**

| Test no | Variables | N | Mean | SD | Paired sample t-test |
|---|---|---|---|---|---|
| 1 | SQ: Neutral | 175 | 2.82 | 2.55 | -1.251 |
| | SQ: WOS; L×L+ | 175 | 3.15 | 2.50 | |
| 2 | SQ: Neutral | 175 | 2.82 | 2.38 | -1.706* |
| | SQ: WOS; L×H | 175 | 3.31 | 2.55 | |
| 3 | SQ: Neutral | 168 | 2.77 | 2.53 | -4.29*** |
| | SQ: WOS; H×L | 168 | 5.03 | 6.21 | |
| 4 | SQ: Neutral | 175 | 2.82 | 2.55 | -6.807*** |
| | SQ: WOS; H×H | 175 | 4.64 | 2.61 | |

Note: *p < 0.1; **p<0.05; ***P<0.01; SQ = status quo; JV= Joint venture; WOS= Wholly owned subsidiary

+The first and the second sign indicate the market size and political risk respectively (Low vs High).

## Appendix 1: Concept definitions

Before proceeding, we would like to let you know of some important definitions you may need to review during the survey:

**Scenario:** By scenario, we refer to fictitious situations under which a manager makes decisions to enter a particular foreign market and use certain operation mode in foreign markets.

**Operation mode:** is an institutional arrangement that makes possible the operation of a company's products, technology, human skills or other resources into a foreign country, e.g., different types of exporting (e.g., using sales agents and subsidiaries), joint ventures, acquisition of another company, establishing own company, etc.

**Foreign sales agent:** acts on your behalf in the overseas market. Agents are paid a commission for any sales they make.

**Foreign sales subsidiary:** is a local company owned and operated by you in a foreign country under the laws of that country. It provides complete control of the sales function.

Please note that exporting through sales agent is less risky and needs less investment, but also less profitable, compared to establishing own foreign sales subsidiary. Nevertheless, a sales agent gives you access to the market.

**International joint venture (JV):** is a business entity created between a local company and your company in a foreign country, generally characterized by shared ownership, shared returns and risks, and shared governance.

**Wholly owned subsidiary (WOS):** is a company that is completely owned by you being the parent/holding company. The parent company will hold all of the subsidiary's common stock.

Please note that through establishing a WOS, you risk more as you invest alone without working with a partner. But compared with a JV, a WOS may be more profitable; you also have more control in a WOS than a JV.