

## ABSTRACT

This dissertation investigates the relationship between magnitude and direction of formal (regulatory) institutional distance and entry mode choice of emerging market multinationals (EMNEs) from the context of Indian MNEs. The existing transaction cost theory-based distance - entry mode choice literature is equivocal, with studies predicting both higher and lower control entry mode choices with higher regulatory institutional distance. We attribute the lack of consensus in the previous literature to the problems associated with the underlying theoretical perspectives (especially the view of institutions and strand of institutional theory used) and to the conceptual limitations and methodological inconsistencies associated with institutional distance construct (Shenkar, 2001, 2012; Zaheer et al., 2012). In this thesis, we view institutions from the theoretical perspective of institutional economics, which views institutions as "rules of the game" and focusses on the institutional quality of country level institutions and its role in favoring economic transactions and coordination between, actors (North, 1990). This strand of institutional theory is helpful to explore the entry mode decisions of MNEs as it involves the transaction cost associated with international investment and the form of organization of MNEs in a host country (Kostova et al., 2020). We identify efficiency of transfer of home country practice as the key mechanism along with external uncertainty, which determines the entry mode choice of EMNEs and neglected in the existing transaction cost theory-based literature. We further argued that EMNEs face asymmetries in transferring home country practices to host countries according to the relative difference in the institutional quality between host and home country of EMNEs (direction of institutional distance), which affects their entry mode choice decisions.

Contrary to the conventional wisdom, in a sample dataset of 500 BSE-listed firms, between the year 2007-2018, we found support to the hypothesis that Indian MNEs prefer a higher control entry mode such as wholly owned subsidiaries (WOSs) when expanding into a host country with more inferior institutional quality than the home country. Our results also lend support to the hypothesis that Indian MNEs will prefer a lower commitment entry mode such as international joint ventures (IJVs) when expanding into a host country with better institutional quality. Thus, we augment the transaction cost theory explanation by incorporating how costs changes with both the direction of distance as well as magnitude. We have further enhanced the explanation of how transaction cost theory impacts the institutional distance for EMNEs, by highlighting asymmetry faced by EMNEs in the transferability of home country practice and its impact on entry mode choices. We choose the specific context of entry mode choices of Indian multinationals, given their unique home country environment and associated disadvantages such as liability of origin (LOR), which affects the transferability of home country practices to a host country. To the best of our knowledge, this study is the first to examine the role of magnitude and direction of institutional distance in the context of EMNEs. We also probe how micro-foundational characteristics such as the board of directors affect the relationship between institutional distance and entry mode choice. We also found that board international experience moderates the relationship of formal institutional distance and entry mode choice of EMNEs in both directions differently. We found that, when EMNEs expand to a host country at a higher positive institutional distance, board characteristics help EMNEs to choose higher control entry mode choice such as WOSs. Further, when EMNEs expand into a host country at a negative institutional distance board international experience helps them to choose a risky entry mode choice such as IJVs. From a practical viewpoint, this study provides a reference framework for managers for making international strategic business decisions.