Practice Variation and Individual Agency: CEO Compensation and the Choice between Isomorphic vis-à-vis Nonisomorphic Strategies

Mirko Hwan Benischke

A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy in International Business, The University of Auckland, 2014.

Abstract

Although neoinstitutional theory has been increasingly used to explain a firm's strategic choices, there is a paucity of research explaining firm heterogeneity in the adoption of strategies. Drawing on the behavioral agency model (BAM), this study argues that when managerial agents such as Chief Executive Officers (CEOs) are confronted with a tension between legitimacy risk – associated with non-conformance to institutional practices – and business risk, they will weigh the possibility of losses to their reputation and personal wealth associated with the downsides of both forms of risk. Thus, this study combines the arguments of neoinstitutional perspective arguing that managers will seek legitimacy through their choices on behalf of the firm and behavioral agency suggesting that managers are motivated by the need to limit losses of their reputation and personal wealth. The empirical framework is tested by examining 4,125 cross-border alliances and acquisitions that have been conducted by multinational corporations (MNCs) headquartered in the US in the period 1993-2010. Consistent with the theoretical framework put forward in this study, the results suggest that CEOs are less likely to reduce legitimacy risks by adopting cross-border acquisitions in response to institutional pressures when the CEO has higher levels of risk bearing, defined as wealth-at-risk of loss, in the form of stock options and cash compensation. These findings have important implications for neoinstitutional theory. In particular, the results of this study challenge the longstanding neoinstitutional assumption that firms – and their CEOs – are willing to select isomorphic strategies if reduction in firm legitimacy risk compensates for any increase in business risk. That prevailing logic implies that CEOs make strategic choices without regard to their personal risk preferences. Instead, this study has shown that the CEO is cognizant of the threat posed to their accumulated firm-specific wealth by these two dimensions of firm risk – i.e., legitimacy and business risk – and will therefore

actively manage the tension between the two. Moreover, these findings also provide an alternative explanation for heterogeneity in firm strategies within organizational fields. Specifically, the results reported in this study suggest that the interplay between institutional pressures and the CEO's risk bearing explains strategic choices and firm heterogeneity within organizational fields.

Acknowledgements

It would not have been possible to complete this doctoral thesis without the help and support of the kind people around me, to only some of whom it is possible to give particular mention here.

I am deeply indebted to my supervisor, Professor Siah Hwee Ang, who has been a tremendous mentor for me. Without his excellent guidance, patience, care, and encouragement, this thesis would not have been possible. His unsurpassed knowledge of strategic management has been an enormous asset and made this process an invaluable experience. The good advice and support of Associate Professor Natasha Hamilton-Hard during the final stages of my thesis have been invaluable, for which I am extremely grateful. I would also like to thank Assistant Professor Geoffrey Martin and Professor Luis Gomez-Mejia, who were willing to provide constant feedback on my PhD research.

I would like to acknowledge the financial, academic, and technical support of the University of Auckland and its staff, particularly in the award of a Doctoral Scholarship that provided the necessary financial support during my doctoral studies. I would also like to thank the Postgraduate Office of the University of Auckland Business School for its financial support which allowed me to present my work at various international conferences.

My sincere thanks also goes to my fellow PhD students Grigorij, Parizad, and Vanisha who have not only promoted a stimulating academic environment, but also made this process more enjoyable.

Most of all, I would like to thank Jenny for her personal support and great patience at all times. My parents and brother have given me their unequivocal support throughout, as always, for which my mere expression of thanks likewise does not suffice.

Table of Contents

List of Tables

CHAPTER 1
INTRODUCTION

1. Introduction

1.1 Background

Although the majority of studies adopting a neoinstitutional theory perspective have focused on the diffusion of firm strategies (Lieberman & Asaba, 2006), research on practice variation within organizational fields has gained significant traction in the past decade. For example, Sanders and Tuschke (2007) examine the adoption of an institutionally contested practice; the emergence of stock option pay in Germany. Despite the significant contributions of this line of work, strategy scholars continue to question the power of neoinstitutional theory to explain across-firm heterogeneity in firm behavior (Marcel, Barr & Duhaime, 2010). This is problematic as the exploration of heterogeneity in firm strategy is a core theme in strategy research (Powell, Lovallo & Fox, 2011).

Drawing on the behavioral agency model (BAM) (Wiseman & Gomez-Mejia, 1998), this study advances the emerging stream of work on practice variation within organizational fields by exploring the role of Chief Executive Officers' (CEOs) risk preferences in influencing multinational corporations' (MNCs) responses to institutional pressures. To do so, this study focuses on the question how CEOs manage the tension between *legitimacy* and *business* risks. Legitimacy risk refers to the likelihood that the MNC loses social acceptance by deviating from the norms of the organizational field (Dowling & Pfeffer, 1975; Suchman, 1995). Business risk describes the likelihood of performance failures or the failure to meet the expectation of shareholders (Larraza-Kintana, Wiseman, Gomez-Mejia & Welbourne, 2007). Both legitimacy and business risks can pose distinct threats to the CEO's personal wealth: legitimacy losses of their firm is likely to lead to loss of CEO reputation and future earnings potential (Agarwal & Mandelker, 1987; Brandenburger & Polak, 1996; Gentzkow & Shapiro, 2006); performance failures result in a drop in the value of equity-based compensation elements and jeopardize future compensation of the CEO (Martin, Gomez-Mejia & Wiseman, 2013). A tension between legitimacy and business risks exists when strategies that increase legitimacy – thereby reducing legitimacy risk – also increase business risk. In this situation, the CEO must manage the tension between these countervailing forces in order to protect his/her personal wealth.

The tension between legitimacy and business risk has long been acknowledged by neoinstitutional theorists (Meyer & Rowan, 1977: 340; see also DiMaggio & Powell, 1983). Yet, neoinstitutional theory has largely relied on the assumption that firms are generally willing to trade efficiency benefits for legitimacy benefits (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Westphal, Gulati & Shortell, 1997). As noted above, both legitimacy and business risks pose distinct threats to the CEO's personal wealth. Considering that legitimacy risk reduction often comes at the expense of efficiency benefits thereby creating business risks (Staw & Epstein, 2000; Westphal, Gulati & Shortell, 1997), previous work has thus neglected the distinct threats to the CEO's personal wealth associated with conformance decisions. For example, legitimacy risk reduction through conformity may also create business risks if the strategy adopted in response to institutional pressures itself is inherently high risk. This suggests a potential trade off, whereby legitimacy risk reduction may have to be achieved at the expense of an increase in business risks. What is missing from previous research is the role played by the CEO's personal risk when handling these distinct hazards to the firm. This study addresses this issue by analyzing how CEOs manage the trade-offs between legitimacy and business risks depending on the potential consequences of both forms of risk to their personal wealth.

Behavioral agency research suggests that CEOs are generally loss-averse, meaning that they are less likely to take risks – i.e., make strategic decisions under uncertainty with the potential to influence their firm-specific wealth – as their wealth-at-risk of loss (risk bearing) increases (Wiseman & Mejia-Gomez, 1998). This theoretical framework has been used to explain strategic choices – and in particular strategic risk taking of the CEO and firm (e.g., Devers, McNamara, Wiseman & Arrfelt, 2008; Larraza-Kintana *et al.*, 2007; Martin *et al.*, 2013). From this perspective, the argument that firms are generally willing to reduce legitimacy risks even though this means exposing the firm to greater business risks only holds if CEOs are not sensitive to these business risks. This may be true in cases where CEO risk bearing is low. However, as their wealth-at-risk of loss (risk bearing) increases, they are expected to adopt strategies that minimize business risks and protect their current wealth (Wiseman & Gomez-Mejia, 1998). This study uses BAM and the concepts of agent loss aversion and risk bearing to examine how the CEO manages the aforementioned tension between legitimacy and business risks when confronted by institutional pressures.

An important determinant of CEOs' wealth-at-risk (risk bearing) and thus a critical incentive to perform a cost-benefit analysis of the economic consequences of strategic conformity is their compensation arrangement, which can consist of various elements including exercisable and nonexercisable options and cash compensation (Devers *et al.*, 2008; Martin *et al.*, 2013; Sanders & Hambrick, 2007; Wiseman & Gomez-Mejia, 1998). CEO compensation arrangements have been of particular interest for agency theorists as they have argued that compensation arrangements are an efficient mechanism to influence CEO risk bearing and thus align their risk preferences with the risk preferences of principals (Wiseman & Gomez-Mejia, 1998). Differences in risk preferences between CEOs and principals arise from the fact that while an agent's income and employment risk is tied to one firm, principals are able to diversify their investments and are thus not affected by the failure of single organizations to the extent CEOs heading failing organizations are (Jensen & Meckling, 1976). Thus, the management of CEOs' risk bearing using such incentive mechanisms is desired by shareholder-principals in order to reduce agency costs (Jensen & Meckling, 1976; Eisenhardt, 1989). There is strong theoretical and empirical evidence in the agency theory literature supporting the argument that CEO risk bearing is indeed a function of their accumulated option wealth and cash compensation (Devers *et al.*, 2008; Sanders & Hambrick, 2007; Martin *et al.* 2013; Wiseman & Gomez-Mejia, 1998).

By exploring the effect of CEO risk bearing on their responses to institutional pressures, this study also addresses an important shortcoming of BAM. Agency scholars have generally focused on dimensions such as the size of the investment, variance of possible outcomes and the magnitude of possible losses to determine the risk of an investment decision (Bromiley, Miller & Rau, 2001; Sanders & Hambrick, 2007). These dimensions of risk, however, only capture the material business risks of an investment decision, thereby neglecting the possibility that CEOs also base their investment decisions on external cues about the appropriateness of the choice within a specific social context (Wiseman, Cuevas-Rodriguez & Gomez-Mejia, 2012). For example, it has been suggested that external legitimacy providers are likely to evaluate the actions of CEOs less favorably if they are inconsistent with the expectations of the organizational field (Brandenburger & Polak, 1996; Gentzkow & Shapiro, 2006). This may lead to reputation damages that subsequently adversely affect the CEO's future earnings potential (Agrawal & Mandelker, 1987; Buchholtz, Ribbens & Houle, 2003). As such, it is likely that CEO risk taking is influenced by the interplay of the taken-for-granted character of investment decisions and the material risks associated with these strategic choices.

In order to empirically test these theoretical arguments, this study focuses on the choice between cross-border alliances and acquisitions. Institutional theorists have argued that cross-border governance decisions are an efficient indicator of conformity to host country institutional pressures (Estrin, Baghdasaryan & Meyer, 2009; Guillen, 2002; Meyer, Estrin, Bhaumik & Peng, 2009; Lu, 2002). For example, Garcia-Pont and Nohria (2002) examine the dynamics of alliance formation from a mimetic isomorphism perspective, Ang and Michailova (2008) test the effects of the three pillars of institutions on the choice between equity and non-equity alliances, Haunschild (1993) investigates the impact of director interlocks on corporate acquisition activity, and Xia, Tan and Tan (2008) describe the rise and decline of joint ventures and mergers and acquisitions as foreign market entry strategies. Moreover, while both cross-border alliances and acquisitions offer a relatively quick access to foreign markets, they differ along various dimensions including the degree of business risks (Zollo & Reuer, 2010). More specifically, alliances allow a focal firm to share the risk with a partner (Barkema, Shenkar, Vermeulen & Bell, 1997; Das & Teng, 1998; Hennart & Reddy, 1997) while acquisitions do not allow such a form of risk-sharing (Haleblian, Devers, McNamara, Carpenter & Davidson, 2009). Thus, although the adoption of cross-border acquisitions may increase firm legitimacy if this has become the industry norm, cross-border acquisitions are inherently more risky than alternative governance modes that may confer less legitimacy, such as forming a cross-border alliance (Zaheer, Hernandez, & Banerjee, 2010).

This study argues that the CEO is likely to identify two dimensions of risk inherent to these strategies that have the potential to impose losses upon their accumulated firm-specific wealth: (1) legitimacy risks; and (2) business risks. Both forms of risk create distinct personal risks for the managerial agent. It is expected that CEOs are generally inclined to reduce legitimacy risks by adopting isomorphic strategies although this may expose the firm to greater business risks. This is because CEOs seek to protect their future earnings potential which is largely dependent on their reputation. However, this relationship is contingent upon the compensation contract (value of exercisable and nonexercisable options and cash compensation) of the CEO – and in particular, the risk bearing it creates for the CEO. That is, once the threat to CEOs' current personal wealth in the form of their accumulated option wealth and cash compensation increases, they are more sensitive to the business risks associated with isomorphic strategies and look for alternatives. In this circumstance, they would prioritize the protection of their current personal wealth over their future earnings potential. This argument is based on BAM which suggests that loss-averse managerial agents – including the CEO – are more concerned with the protection of present wealth than maximizing future wealth (Wiseman & Gomez-Mejia, 1998).

1.2 Research Questions

Despite the increasing number of studies exploring the relationship between CEO compensation and their risk preferences, relatively few studies have systematically combined the insights from neoinstitutional theory and behavioral agency theory (for notable exceptions see Berrone, Cruz, Gomez-Mejia & Larraza-Kintana, 2010; Berrone & Gomez-Mejia, 2009; Yeung, Lo & Cheng, 2011). As a result, by ignoring the importance of the legitimizing effect of the organizational field, behavioral agency theorists have adopted an under-socialized conceptualization of risk-taking (Wiseman *et al.*, 2012). This lack of research is somewhat surprising considering that early work within agency theory has already recognized the importance of the social context (e.g., Eisenhardt, 1988) and others have pointed out that a "decision-maker's consideration of risk is colored by individual (that is, subjective) assessments of the decision context in addition to whatever objective information may be available" (Wiseman, Gomez-Mejia & Fugate, 2000: 321). The limited research accounting for the multidimensional nature of risk has focused on individual characteristics of the CEO (e.g., Carpenter, Pollock & Leary, 2003). This perspective, however, also neglects the importance of the organizational field which influences how individuals such as CEOs frame a decision-situation (George, Chattopadhyay & Sitkin, 2006; Marcel *et al.*, 2010).

Specifically, it is unclear how legitimacy risks – the risk of legitimacy losses to the firm – influence the CEO's choice of cross-border governance strategies. While neoinstitutional theory has suggested that MNCs are generally inclined to refer to the governance strategies of other MNCs when selecting a cross-border governance mode (e.g., Ang & Michailova, 2008; Guillen, 2002; Lu, 2002; Yiu & Makino, 2002), these studies have generally argued from a firm-level perspective thereby neglecting the fact that individual decision-makers such as CEOs may also have an incentive or disincentive to adopt isomorphic strategies. For example, some studies have shown that CEOs adopting isomorphic strategies experience an increase in their compensation (Berrone & Gomez-Mejia, 2009; Staw & Epstein, 2000; Yeung *et al.*, 2011). Moreover, it is also likely that CEOs seek to protect their reputation by adopting isomorphic strategies (Brandenburger & Polak, 1996; Gentzkow & Shapiro, 2006). This may be particularly relevant in the context of the choice of cross-border governance strategy as CEOs face difficulties to make sense of the expectations of local legitimacy-providers when operating in foreign markets. Moreover, they are also confronted with the challenge of liability of foreignness. In this situation, the behavior of other MNCs may serve as a particularly important reference point that helps to reduce the risk of choosing an illegitimate governance strategy. Hence, the first research question is:

How do the governance choices by other MNCs influence the CEO's subsequent choice of governance strategy?

Although strategy scholars have increasingly drawn on neoinstitutional theory to explain firm strategies (Bruton, Lohrke & Lu, 2004; Lieberman & Asaba, 2006; Peng, Sun, Pinkham & Chen, 2009), relatively little work has explored practice variation within organizational fields. This paucity of research, however, may be expected considering that neoinstitutional theory per se only offers very limited theoretical background for describing practice variation at the firm-level (Marcel *et al.*, 2010). Indeed, while neoinstitutional theory theoretically accounts for the specific situational context in which a particular strategic choice is made (Ocasio, 1997) and the nature of institutional pressures emanating from the organizational field (Haunschild & Miner, 1997), it seems that existing theory would greatly benefit from a more holistic approach that also describes the role of managerial self-interest in the institutional processes. Behavioral agency theorists have long argued that CEO compensation affects their risk bearing, an observation that may be important to explain practice variation. From this perspective, it is possible that CEO risk bearing which is externally induced through incentive alignment mechanisms such as stock option payment is an important source of practice variation within organizational fields. That is, CEO risk bearing explains how CEOs manage the tension between legitimacy risks and business risks when making decisions regarding conformance with the organizational field.

As noted above, a critical determinant of CEOs' wealth-at-risk (risk bearing) is their compensation arrangement. Agency theorists have been particularly interested in CEO compensation arrangements as they have consistently argued that compensation arrangements are an efficient mechanism to align the CEO's risk preference with the risk preferences of shareholder-principals (Wiseman & Gomez-Mejia, 1998). The CEO's compensation arrangement typically consists of various elements including exercisable and nonexercisable options and cash compensation (Martin *et al.*, 2013). Each of these elements has been shown to have an independent effect on CEO risk bearing (e.g., Devers *et al.*, 2008; Wiseman & Gomez-Mejia, 1998). That is, as the accumulated value of exercisable and nonexercisable options and cash compensation increases, CEOs will have a greater incentive to make choices that protect their personal wealth and thus refrain from excessive risk taking (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007; Martin *et al.*, 2013; Wiseman & Gomez-Mejia, 1998). Therefore, the effect of CEO compensation on the choice between isomorphic and nonisomorphic strategies may be the result of a relatively complex process and it is important to consider the effect of each pay element separately. Hence, the second research question is:

> *How does the accumulated value of exercisable and nonexercisable options and total cash compensation influence the choice between isomorphic and nonisomorphic strategies?*

1.3 Research Objectives and Contributions

The main objective of this study is to explain theoretically and empirically test to what degree differences in CEO compensation – i.e., the value of exercisable and nonexercisable options and total cash compensation – explain across-firm heterogeneity in firm strategies within organizational fields. This study thus advances research on practice variation by drawing attention to the role of managerial self-interest in institutional processes. As such, this study builds on the work by Kennedy and Fiss (2008) and Westphal and Zajac (1994, 2001), among others, which have acknowledged the critical role of managerial agents in neoinstitutional theory. However, while their work has created a space for managerial agents within neoinstitutional theory, their work has not explicitly considered the importance of CEO risk bearing in institutional processes. The notion of risk bearing is important as it helps to explain how CEOs manage the tension between legitimacy and business risk.

By focusing on the effect of CEO compensation on the choice between isomorphic and nonisomorphic strategies, this study seeks to make two major contributions to the strategy literature employing neoinstitutional theory. First, this study draws attention to the risks to CEOs' personal wealth created by the pursuit of isomorphic strategies. While previous research has focused on the reduction of legitimacy risks, neoinstitutional theorists have paid relatively little attention to the risk to the firm-specific wealth of the CEO that is the result of business risks associated with the adoption of isomorphic strategies. Specifically, this study relaxes a key assumption of neoinstitutional theory that organizational decision-makers are always willing to trade efficiency benefits for legitimacy benefits. By systematically analyzing how CEOs manage the tension between legitimacy risks and business risks this study provides an alternative explanation for practice variation within organizational fields. Understanding practice variation has also become a particularly important aspect of neoinstitutional theory to alleviate the perception that neoinstitutional theory has become associated with the argument that all firms would adopt the same strategies (Clegg, 2010; Greenwood & Meyer, 2008).

Second, this study also contributes to the emerging stream of literature that has recognized that "identifying the microfoundations of response to institutional pressures is crucial to explain firm heterogeneity" (Crilly, Zollo & Hansen, 2012: 1444; see also George *et al.*, 2006). While other work has also acknowledged that neoinstitutional theory can "accommodate interest-seeking, active behavior" (Oliver, 1991: 149), relatively little is known about the motive behind such interest-seeking behavior (for notable exceptions see Kim, Shin, Oh & Jeong, 2007; Lamberg & Pajunen, 2010). In this regard, the literature is limited to speculations about the "fear of novelty" (Oliver, 1997) and "self-interest" in general (Kennedy & Fiss, 2009; Westphal & Zajac, 1994, 2001). By analyzing the effect of CEO risk bearing on their responses to institutional pressures, this study introduces a more nuanced explanation about one of the factors that may motivate managerial agents to resist institutional pressures in existing theory. That is, this study argues that risk bearing incentivizes CEOs to conduct a cost-benefit analysis of the economic consequences of strategic conformity. Similarly, this study also complements the work on the microfoundations of responses to institutional pressures by suggesting that the way CEOs frame, interpret, and make sense of the world is largely dependent on the perceived threat to current wealth (Wiseman & Gomez-Mejia, 1998). Therefore, by drawing on BAM, this study also responds to recent calls for a stronger focus on behavioral strategy (Powell *et al.*, 2011).

In addition to the two key contributions noted above, this study also seeks to make three minor contributions. First, considering the research context of this study, this work also contributes to the international business literature by demonstrating that the interplay between sociological components and CEO compensation explains a significant amount of variation in the choice between cross-border alliances and acquisitions. International business scholars have also been primarily interested in the diffusion of similar firm strategies across borders (e.g., Ang & Michailova, 2008; Guillen, 2002; Lu, 2002; Yiu & Makino, 2002) and existing work exploring practice variation has predominantly adopted the insights from organization theory and focused on the firm-level and the accumulation of social resources (e.g., Bruton, Ahlstrom & Puky, 2009; Cantwell, Dunning & Lundan, 2010; Tsui-Auch & Moellering, 2010). While these studies have significantly advanced our understanding of the role of MNCs in institutional processes, there have been repeated calls for a more systematic integration of the human element in international business research (Brouthers & Hennart, 2007). This study thus extends the work by

Herrmann and Data (2002, 2006) and Datta, Musteen and Herrmann (2009), among others, who have started to explore the effect of CEO characteristics on the choice of cross-border governance modes. In particular, this study offers an alternative perspective on existing explanations of practice variations among MNCs by exploring the effect of CEO compensation on the adoption of isomorphic vis-à-vis nonisomorphic cross-border governance strategies.

Second, this study also seeks to make a contribution to the agency theory literature by theorizing about the possibility that CEOs wanting to protect their personal wealth may indeed be willing to reduce their firms' exposure to high-risk strategies regardless of pressures emanating from the organizational field. Specifically, by focusing on business risks when predicting the CEO's investment decision on the behalf of the firm (e.g., Devers *et al.*, 2008; Martin *et al.*, 2013; Sanders & Hambrick, 2007), agency theorists have generally neglected the important role of the organizational field. This presents an under-socialized view of risk taking and does not consider the possibility that the risk associated with a strategic choice is determined by its taken-for-granted character within an organizational field (George *et al.*, 2006). This study explores the possibility that the interaction between institutional pressures and CEO risk bearing explains practice variation. As such, this study also integrates the insights from related work suggesting that risk is not an absolute concept in that all CEOs always view a focal strategic option as highly risky and vice versa. Rather, risk is dependent on a decision-maker's subjective assessment of the decision situation (Sitkin & Pablo, 1992). From this perspective, the evaluation of the risks associated with a strategic choice may also be influenced by its taken-for-granted character (George *et al.*, 2006). This study contributes to the literature by clearly distinguishing between legitimacy risks and business risks.

Third, considering that research associated with agency theory has also important practical implications as it guides the actions of boards of directors (Gomez-Mejia & Wiseman, 1997), this study also potentially makes a practical contribution by demonstrating that boards of directors should also consider the institutional pressures emanating from the organizational field when designing CEO compensation. While agency theory generally suggests that CEOs can be incentivized to engage in behaviors desired by firm stakeholders through the addition of an equity component to their compensation (Eisenhardt, 1989), this may not be true in cases where environmental factors such as institutional pressures counteract the desired effect of these equity components. For example, if the board of directors seeks to incentivize a CEO to engage in acquisition activity, they have to also consider the taken-for-granted character of the acquisition strategy that may either mitigate or accentuate the effect of equity components as part of CEO compensation. In other words, it may be important for boards of directors and compensation committees to be aware of the fact that the risk CEOs are willing to take depends on the interplay between their risk bearing and institutional pressures. As such, this study seeks to make a practical contribution by drawing attention away from the independent main effects of CEO compensation on firm risk taking.

Taken together, the research objectives are

i. to test if there is a positive relationship between the number of acquisitions that have been previously adopted by foreign firms and the subsequent adoption of acquisitions as governance mode.

ii. to test if the positive relationship between the number of acquisitions that have been previously adopted by foreign firms and the subsequent adoption of acquisitions as governance mode is negatively moderated by the accumulated value of exercisable options.

iii. to test if the positive relationship between the number of acquisitions that have been previously adopted by foreign firms and the subsequent adoption of acquisitions as governance mode is negatively moderated by the accumulated value of unexercisable options.

iv. to test if the positive relationship between the number of acquisitions that have been previously adopted by foreign firms and the subsequent adoption of acquisitions as governance mode is negatively moderated by total cash compensation.

1.4 Organization of Study

This study is structured as follows. Chapter two presents the literature review. Specifically, in reviewing relevant literature on neoinstitutional theory including the work on practice variation and previous research on BAM, this chapter provides the theoretical background needed to develop the theoretical framework. Chapter three contains the arguments leading up to the hypotheses. Chapter four focuses on the methodology. Specifically, it describes the sample selection and data collection process, the operationalization of the variables, and the analysis of the data. Chapter five presents the results, discussion of the results, and conclusion of the study.

CHAPTER 2
THEORETICAL BACKGROUND

2. Theoretical Background

2.1 Neoinstitutional Theory

Neoinstitutional theory in its sociological form has become an integral part of management research. Indeed, the citation count of the seminal work by DiMaggio and Powell (1983) has only been surpassed by two other papers (Greenwood & Meyer, 2008). At the core of neoinstitutional theory is the idea that institutional rules, myths and beliefs create action patterns for organizational decision-makers that are not necessarily aligned with economic efficiency (DiMaggio & Powell, 1983). From this perspective, the organizational field – defined as "organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product customers, regulatory agencies, and other organizations that produce similar services or products" (DiMaggio & Powell, 1983: 148) – in which a firm is embedded is likely to determine its structure and practices. Because firms within the same field are exposed to a similar set of normative, regulatory, and cognitive institutional pressures (Scott, 2001), they are expected to become homogenous over time (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). In this regard, it is useful to note that the focus on homogeneity is not surprising considering that the seminal work by DiMaggio and Powell (1983) has been motivated by providing an alternative explanation for the increasing homogenization among firms.

While the work associated with old institutionalisms has depicted homogenization as the outcome of market-driven rationalization (see Hirsch & Lounsbury, 1997 for a discussion), DiMaggio and Powell (1983) have grounded their conceptualization of institutionalization in institutional dynamics. As such, neoinstitutional theorists have conceptualized institutionalization as "both a process and a property variable" (Zucker, 1977: 728; see also Green, Li & Nohria, 2009; Tolbert & Zucker, 1983). That is, institutionalization explains the process whereby individual actors convey to others what is perceived as real and thus socially accepted and, at the same time, it describes the degree to which a certain reality is taken-for-granted at any given point in this process. Therefore, neoinstitutional theorists are particularly interested in the way firms interact with their environment (Oliver, 1991). The interaction between firms and the organizational field is governed by legitimacy, which denotes whether a structure or practice is "taken-for-granted" and thus institutionalized within a particular organizational field (Zucker, 1977). Specifically, neoinstitutional theory suggests that firms adopting structures and practices that correspond to the expectations of other actors forming the organizational field will gain legitimacy and increase their survival prospects (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). In contrast, deviation from the widely held beliefs is punished by the organizational field and may result in the loss of legitimacy and subsequently critical organizational resources (George *et al.*, 2006; Oliver, 1991).

Firms have thus generally an incentive to engage in symbolic actions by constructing stories about their activities that correspond to the expectations of their constituents in order to protect legitimacy and to avoid repercussions from the organizational field (Dacin, Munir & Tracey, 2010; DiMaggio & Powell, 1983; Meyer & Rowan, 1997). In support of this argument, Rao (1994) finds that firms that win certification contests gain legitimacy and thus increase their survival prospects. Similarly, Ruef and Scott (1998) show that normative legitimacy significantly decreases hospital mortality. From a strategy perspective, this view suggests that only strategies which are taken-for-granted within the organizational field reflect the repertoire of strategic choices considered by organizational decision-makers (Ocasio, 1997). In contrast, strategies that are not taken-for-granted within the organizational field are ignored (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Institutions can thus be viewed as the "taken-for-granted repetitive social behavior that is underpinned by normative systems and cognitive understandings that give meaning to a variety of social practices and sustain a particular type of social order" (Dacin *et al.*, 2010: 1393).

Because of the focus on the attainment or preservation of legitimacy, neoinstitutional theory has largely been described as an external control perspective (Hambrick & Finkelstein, 1987) or deterministic (Hirsch & Lounsbury, 1997). Similarly, Oliver (1991) argues that institutional pressures ensuing from the organizational field reduce a firm's radius of operations (see also George *et al.*, 2006). Neoinstitutional theorists, however, have argued that strong institutional pressures can also facilitate a learning process whereby legitimate behaviors are reinforced by the organizational field (e.g., Ensley & Hmieleski, 2005; Gunawan & Rose, 2014; Levitt & Nass, 1989). That is, firms facing ambiguous decision situations can import clarity from the organizational field to impose a clear direction on processes that are otherwise uncertain (Levitt & Nass, 1989). In contrast, the absence of strong institutional pressures may inhibit a firm's ability to gain legitimacy due to the lack of clear expectations of external legitimacy providers (Barreto & Baden-Fuller, 2006). For example, Garud, Jain and Kumaraswamy (2002) have suggested that the lack of legitimate industry standards dampens innovation as firms find it difficult to innovate for fear of introducing illegitimate products.

2.1.1 Legitimacy

The concept of legitimacy has its roots in social ecology (e.g., Kanter, 1972). Within organization theory, the notion of legitimacy has prominently featured in two streams (Suchman, 1995); resource dependence theory and neoinstitutional theory. Resource dependence theorists have conceptualized legitimacy as the outcome of the interaction between firms and the cultural environment (Pfeffer & Salancik, 2003). For example, Dowling and Pfeffer refer to legitimacy as the "congruence between the social values associated with or implied by their activities and the norms of acceptable behavior in the larger social system of which they are a part" (1975: 122). From this perspective, legitimacy is seen as a strategic resource that governs the exchange and transaction of firm-specific resources (e.g., Ashforth & Gibbs, 1990; Pfeffer & Salancik, 2003). Specifically, this stream has highlighted the evaluative and power dimensions of legitimacy. That is, legitimacy has been seen as firm-specific resource that conveys to other firms its right to exist (Pfeffer & Salancik, 2003). Therefore, a firm's ability to attain legitimacy is important in order to be able to mobilize and secure the constant flow resources that are critical to firm survival (Oliver, 1991; Rao, 1994; Ruef & Scott, 1998). Said differently, the level of legitimacy determines a firm's ability to control external resources and legitimate firms are thus able to exercise some form of control over their environment.

In contrast, neoinstitutional theory has been particular interested in the cultural-cognitive dimension of legitimacy. While neoinstitutional theorists have also suggested that legitimacy determines the status of an organization (DiMaggio & Powell, 1983), they have suggested that legitimacy depicts the degree to which firm behavior is perceived to be taken-for-granted by the organizational field (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 2001). From this perspective, legitimacy is not dependent on the congruence between the cultural environment and actual firm behavior. Rather, neoinstitutional theorists contend that legitimacy is the outcome of a process whereby other actors within the organizational field evaluate the degree to which a particular firm behavior is acceptable. By focusing on the cultural-cognitive dimension, neoinstitutional theorists have thus suggested that firms are not able to exercise control over their environment. Rather, stable resource flows are only achieved through its conformity to the expectations of external legitimacy providers (Scott, 2001). Systematically integrating the underlying theoretical rationales prevalent in both streams, Suchman has defined legitimacy as the degree to which a particular practice or strategy is considered as “desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman, 1995: 574).

More recent research has further refined this definition. Specifically, it has been argued that the definition of legitimacy should also reflect that legitimization is not a mechanic process, but that firms have to actively justify that their actions are in accordance with the meaning system that governs the organizational field (Etzion & Ferraro, 2010; Greenwood, Suddaby & Hinings, 2002; Zilber, 2011). From this perspective, legitimacy can also be described as the “collective standards of appropriate behavior by explaining or justifying the social order in a way that motivates actors to enact actions within a comprehensible, meaningful world” (Green *et al.*, 2009: 13). Such a conceptualization of legitimacy not only incorporates the idea that firms have to constantly engage in symbolic actions to communicate to others that they are a legitimate entity being worth supported by society (Meyer & Rowan, 1977; see also Zott & Huy, 2007), but also reinforces the observation that legitimation processes within organizational fields are dynamic (Glynn, 2008; Greenwooed *et al.*, 2002; McInerney, 2008; Oakes, Townley & Cooper, 1998; Oliver & Montgomery, 2008). As such, Green *et al.* (2009), among others, direct attention to the need for firms to develop rationales that convince others that their behavior is legitimate in order to justify their existence and enable replication.

The development of such rationales has been defined as “theorization” and refers to the “self-conscious development and specification of abstract categories and the formulation of patterned relationship such as chains of cause and effect” (Strang & Meyer, 1994: 104). The concept of theorization is also grounded in the idea that firm behavior is only legitimate to the extent to which it is embedded in reasons or arguments (Castel & Friedberg, 2010; Goodrick & Reay, 2010; Green *et al.*, 2009; Greenwood *et al.*, 2002; Helms, Oliver & Webb, 2012; Lok, 2010; Lounsbury & Glynn, 2001; Suddaby & Greenwood, 2005; Zilber, 2006; 2011). The process of theorization is often prompted by exogenous events that expose challenges to existing legitimate practices and draw attention to alternatives (Carberry & King, 2012; Nigam & Ocasio, 2010). For example, Anand and Watson found that symbolic rituals are important to induce stability to organizational fields in that they serve as a medium for embracing and resolving conflicts about the legitimacy of dominant practices (see also Anand & Jones, 2008; Dacin *et al.*, 2010; Farjoun, 2002). As such, the legitimacy of certain behaviors is not solely dependent on collective rationality but also on the resolution of conflicts among actors within the organizational. It follows that while dominant logics are generally expected to persist (Dacin *et al.*, 2010; DiMaggio & Powell, 1983), the legitimacy of behaviors may shift to alternative behaviors as a result of such conflicts (Anand & Watson, 2004; Greenwood *et al.*, 2002).

2.1.2 Institutional Isomorphism

As noted above, the majority of work within the neoinstitutional literature has closely followed the key ideas of DiMaggio and Powell (1983) in that it has focused on the explanation of the diffusion of firm strategies (Lieberman & Asaba, 2006). In fact, a key hypothesis of neoinstitutional theory is that firms that are part of the same organizational field become structurally similar over time; a process defined as institutional isomorphism. In their seminal work, DiMaggio and Powell (1983) identify three types of institutional isomorphism; i.e., coercive, normative, and mimetic isomorphism. Each of the three forms of institutional isomorphism describes a distinct set of institutional pressures and represents a different source of legitimacy.

2.1.2.1 Coercive Isomorphism

Coercive isomorphism refers to a process whereby firms conform to the expectations of formal and informal regulatory institutions in order to gain legitimacy (DiMaggio & Powell, 1983). Previous studies have made a distinction between formal and informal coercive pressures. While both forms of pressures are expected to facilitate coercive isomorphism, the sources of formal and informal coercive pressures differ. Formal coercive pressures generally emanate from written laws and regulations which are directly enforced by the state, local governments, or other government agencies (Bjoerkman & Lu, 2001; Chizema & Kim, 2010; Guler, Guillen & MacPherson, 2002; Peng, 2004; Rosenzweig & Singh, 1991). These institutions can enforce formal laws and regulations using different mechanisms such as sanctions or surveillance, although surveillance has been shown to prompt more substantive responses from firms (Short & Toffel, 2010). For example, government agencies often put constraints on nascent firms seeking help by mandating that access to critical resources is dependent on whether the firm provides a written business plans (Honig & Karlsson, 2004; Liang, Saraf, Hu & Xue, 2007; Oakes *et al.*, 1998). As such, through the control of coercive institutions, governments are able to actively alter and reshape the structure of organizational fields (McDermott, Corredoira & Kruse, 2009; Wade, Swaminathan & Saxon, 1998). Constraints may also arise from the affiliation with other public organizations such as universities as these public organizations can also impose formal rules on affiliated firms (Ensley & Hmieleski, 2005; Lounsbury, 2001).

While coercive pressures are generally associated with rules and regulations that are codified and are thus relatively easily to enforce by the state, local governments, or government agencies, informal rules and regulations are also an important source of coercive isomorphism (DiMaggio & Powell, 1983). Informal institutional pressures which are not codified may arise from various issues related to civil and human rights, freedom of press, political stability, law enforcement or corruption (Kaufman, Kraay & Mastruzzi, 2005). For example, Spencer and Gomez (2011) find that the prevalence of corruption in host countries puts pressures on MNCs to also engage in bribery (see also Venard, 2009). Similarly, Torfason and Ingram (2010) suggest that military alliances are potentially a source of coercive pressures motivating members to adopt democratic government structures. Moreover, Fennell and Alexander (1987) argue that public hospitals which have to deal with the civil service system or local health boards face stronger coercive pressures than their for-profit counterparts which have limited exposure to these institutions. Thus, it seems that the degree to which informal coercive institutions influence firm behavior also depends on the degree to which these firms interact with these institutions (see also Alakent & Lee, 2010; Love & Cebon, 2008; Washington & Ventresca, 2004).

Institutional pressures associated with coercive institutions, however, are not restricted to the formal and informal rules and regulations mandated by the state, local governments, or other government agencies. Indeed, DiMaggio and Powell (1983) conceptualize coercive isomorphism more broadly as the result of pressures from other organizations which control critical resources. As such, coercive isomorphism is conceptually rooted in resource dependence theory (Pfeffer & Salancik, 2003). Analogous to neoinstitutional theory, resource dependence theory suggests that firm environments are collective and interdependent (Oliver, 1991; Wade *et al.*, 1998) and firms have an incentive to respond to the expectations of external resource providers in order to increase their survival prospects (Pfeffer & Salancik, 2003). The notion of resource dependence is important as a focal firm is likely to be more inclined to respond to coercive pressures if the firm’s resource dependence on others is high (Oliver, 1991; Pfeffer & Salancik, 2003). From an institutional perspective, this is reflected in the argument that firms' radius of operations is limited by the expectations of external (Bjoerkman & Lu, 2001; Dobrev, 2007; Oliver, 1991) or internal (Souitaris, Zerbinati & Liu, 2012) resource providers or interest groups (Julian, Ofori-Dankwa & Justis, 2008). For example, suppliers may adopt ISO 9000 quality certificates because their buyers are likely to prefer ISO-9000-certified suppliers (Guler *et al.*, 2002; see also Christmann & Taylor, 2006; Schaefer, 2007).

Empirically, the idea of coercive isomorphism has received strong support. For instance, Tolbert and Zucker (1983) find that the rate of adoption of civil service reforms was higher in states that mandated the introduction of such reforms by law compared to states that did not introduce laws governing the adoption of these reforms. Similarly, Honig and Karlsson (2004) report that nascent firms write business plans in order to gain support by government agencies. As another example, Beggs (1995) provides empirical evidence for the idea that formal and informal regulatory support decreases the level of race and gender related income inequality. Interestingly, Marquis and Huang (2010) have shown that coercive pressures that exist at the time when a firm is founded will become "imprinted" and firm behavior adopted in response to these pressures persists over time. Moreover, Yiu and Makino (2002) found that firms prefer joint ventures over wholly owned subsidiaries in countries with a restrictive coercive domain and Henisz and Delios (2001) report that the likelihood to enter a foreign country is negatively related to the degree of political risk in that country. This is because foreign firms are likely to reduce the risk associated with operating in organizational fields with weak or ambiguous formal and informal rules and regulations by limiting their exposure to such environments.

2.1.2.2 Normative Isomorphism

Normative isomorphism is conceptualized as the result of professionalization. In particular, DiMaggio and Powell (1983) suggest that two aspects of professionalization facilitate normative isomorphism; namely, education and professional networks. Formal education is likely to shape an individual's perception of the norms prevalent in their profession and individuals undergoing similar formal education are thus likely to share the same values. This creates an almost interchangeable pool of individuals from which firms source their prospective employees (DiMaggio & Powell, 1983). Indeed, Dacin *et al.* (2010) have demonstrated that formal dining rituals at higher education institutions play an important role in the maintenance of the taken-for-granted character of existing meaning systems. Similarly, Chung and Luo (2008) show that top executives with the same educational background have a similar perception of what is legitimate which in turn results in homogenous decision-making. This is consistent with other studies suggesting that firms with CEOs that hold a degree in economics or law are more likely to espouse a shareholder value orientation (Fiss & Zajac, 2004), having CEOs with a background in finance is associated with higher levels of diversification (Jensen & Zajac, 2004), or CEOs with a science or engineering background are inclined to spend more money on R&D than CEOs with legal degrees (Barker & Mueller, 2002; Tyler & Steensma, 1998).

The aspect of professionalization which has been of particular interest to neoinstitutional theorists is the effect of professional networks on the diffusion of practices and structures through interorganizational networks (e.g., Burns & Wholey, 1993; Davis, 1991; Galaskiewicz & Wasserman, 1989, Haunschild, 1993, 1994; Palmer, Jennings & Zhou, 1993; Shipilov, Greve & Rowley, 2010; Westphal *et al.*, 1997; Westphal, Seidel & Stewart, 2001). While DiMaggio and Powell (1983) had already suggested that networks are a powerful mechanism for the diffusion of organizational practices and structures, these subsequent studies broadened the theoretical understanding as to how and why interorganizational networks facilitate the diffusion of firm strategies. The underlying assumption of these studies is that interorganizational networks such as director interlocks allow the direct communication between early adopters and those at risk of adoption and thus act as a direct transmission channel for information about the legitimacy of the strategy (Gibbons, 2004; McDermott *et al.*, 2009; Shipilov *et al.*, 2010; Westphal & Zajac, 2001; Westphal *et al.*, 2001). Specifically, they enable directors serving on boards of other firms to perform a "business scan" of the latest strategies by directly accessing information about the legitimacy of these strategies within a particular context that would not have been available otherwise (Haunschild, 1993, 1994; Westphal *et al.*, 2001) or only indirectly via public media (Burns & Wholey, 1993) and consultants (Ghoshal, 1988).

As such, information that is transmitted through networks is particularly valuable as it relates not only to the technical value of the adopted practices but also contains rhetoric and beliefs supporting the practices (Shipilov *et al.*, 2010). In turn, this additional information results in lower thresholds for the subsequent adoption of the strategy (Gibbons, 2004). Interorganizational networks, however, do not only enable the exchange of information but might also be the source of direct pressures through which firms with a high-status influence the behavior of other firms (Burns & Wholey, 1993; Haunschild & Miner, 1997; Haveman, 1993; Shipilov *et al.*, 2010). Therefore, interlocking directorates are considered to be a particularly important mechanism through which firm strategies diffuse across organizational fields. In a similar vein, the notion that professional networks lead to normative isomorphism is also related to the idea that firms that are part of professional groups are more likely to adopt strategies that are consistent with the norms advocated by these groups. This is because the strong ties to professional groups limit a firm's ability to diverge from the professional norm as deviation threatens their status within the profession. There is strong empirical evidence supporting these theoretical arguments (Galvin, 2002; Jonsson & Regner, 2009; Lounsbury, 2007; Townley, 2002).

A direct exposure to the model which has been adopted, however, is not always necessary. Indirect network ties also serve as source of valuable external cues and, thus, nurture the diffusion of organizational practices (Galaskiewicz & Wasserman, 1989; Palmer *et al.*, 1993). Indirect network ties operate if decision-makers pass information to another direct network contact. This information, however, is not derived from their personal experience or knowledge but that of a third person they are tied-to. Similarly, the work on interorganizational networks has also emphasized the importance of second-order imitation. Second-order imitation refers to the imitation of underlying imitation processes or scripts rather than the content of a practice (Westphal *et al.*, 2001). That is, CEOs may not necessarily imitate the content of business strategy decisions made in firms on whose board they are serving. Rather, they imitate the propensity of their interlock partners to imitate other firms. Although there is only limited research exploring the role of indirect network ties and second-order imitation in isomorphic processes, the scarce empirical results generally confirm the predictions regarding the relationship between indirect network ties or second-order imitation effects and the diffusion of firm strategies (Galaskiewicz & Wasserman, 1989; Palmer *et al.*, 1993; Westphal *et al.*, 2001).

The empirical evidence demonstrating the importance of networks in general, however, is more extensive. For example, it has been found that director interlocks play a powerful role in corporate acquisition activity (Haunschild, 1993; Westphal *et al.*, 2001), market entry decisions (Haveman, 1993), and influence premium decisions in acquisitions

(Haunschild, 1994). Director interlocks also nurture the adoption of the poison pill (Davis, 1991; Davis & Greve, 1997), new organizational forms including the multidivisional form (Palmer *et al.*, 1993) and the partner-associate structure (Lee & Pennings, 2002), total quality management (Westphal *et al.*, 1997), implementation of university programs (Kraatz, 1998), and explain the donation patterns of organizations (Galaskiewicz & Wasserman, 1989). Interestingly, some of the studies on interorganizational networks find no support for direct (Fiss & Zajac, 2004; Palmer & Barber, 2001; Palmer *et al.*, 1993; Westphal & Zajac, 1997) and indirect (e.g., Davis, 1991; Han, 1994; Schoonhoven, Eisenhardt & Lyman, 1990) effects of networks on the diffusion of firm strategies. While some of the authors speculate that their result may be explained by the fact that directors are very cautious to avoid the appearance of conflicts of interest that may arise because of their overlapping corporate board memberships (Palmer *et al.*, 1993), others (Fiss & Zajac, 2004) suggest that the mere availability of information about governance models is not sufficient to facilitate its diffusion.

2.1.2.3 Mimetic Isomorphism

Mimetic isomorphism has been depicted as the imitation of firm strategies in response to environmental uncertainty (DiMaggio & Powell, 1983; Lieberman & Asaba, 2006). Although the sources of uncertainty are diverse, uncertainty generally describes a state in which a decision is based on incomplete or ambiguous information and therefore the outcome of the decision cannot be predicted with confidence (Downey, Hellriegel & Slocum, 1975). The information embedded in the external cues associated with the behavior of other firms generally creates a larger pool of information about the technical value of the strategy from which a decision-maker can source (Greve, 2011; Gunawan & Rose, 2014; Haunschild & Miner, 1997; Levitt & Nass, 1989). However, it also carries particularly rich information about its legitimacy and thus allows firms that are confronted with high degrees of environmental uncertainty to mitigate the risk of adopting an illegitimate strategy by mimicking other firms that are perceived to be a superior model (Bolton, 1993; Galaskiewicz & Wasserman, 1989; Goodstein, 1994; Haunschild & Miner, 1997; Henisz & Delios, 2001; Ingram & Simons, 1995). As a result, organizational decision-makers tend to limit their search for solutions to uncertain decision situations to alternatives with a high level of legitimacy, thereby ignoring potential alternatives (DiMaggio & Powell, 1983; Scott, 2001; Meyer & Rowan, 1977).

As such, mimetic isomorphism describes not simply a firm response to uncertainty but rather refers to the interplay between situational uncertainty and the information about the legitimacy of a firm strategy embedded in external cues stemming from the behavior of other firms (DiMaggio & Powell, 1983). For example, Scott (2001) describes the interplay between situational uncertainty and cue-taking as a process whereby organizational decision-makers facing uncertain decision situations construct the reality based on their perception of the world. That is, the behavior of other firms creates a pattern of external cues that defines how the world is perceived. In addition to environmental uncertainty, another source of mimetic isomorphism is employee transfer or turnover (DiMaggio & Powell, 1983). For example, Boecker (1997) finds that firms which have hired new top executives are more likely to enter product markets in which the new executive has gained experience before joining the firm. As another example, Kraatz and Moore (2002) show that firms are more likely to initiate strategic change when their leaders have previously been exposed to alternative strategies in another firm (see also Mezias, 1990).

The concept of mimetic isomorphism has subsequently been extended by Haunschild and Miner (1997). Based on the argument that not all other actors within the organizational field may have the same importance in institutional processes (Greve, 1995; Garcia-Pont & Nohria, 2002), Haunschild and Miner (1997) have argued that there are three different forms of mimetic isomorphism. First, it is suggested that firms adopt very common strategies because the legitimacy of that strategy is enhanced with the number of firms that have previously adopted the same practice. This is consistent with the traditional neoinstitutional argument that the legitimacy of firm behaviors increases with the number of firms adopting similar practices (DiMaggio & Powell, 1983) and is thus most closely related to the original conceptualization of mimetic isomorphism. Previous work has provided strong support for this form of mimetic isomorphism. For example, firms mimic each other in the adoption of governance structures (Lee & Pennings, 2002), product innovation (Semadeni & Anderson, 2010), market entry decisions (Xia *et al.*, 2008), and timing of foreign direct investments (Delios, Gaur & Makino, 2008). An early study by Tolbert and Zucker (1983) has also found that this form of mimetic isomorphism explains the adoption of civil service reforms even if individual characteristics of the adopting cities are considered. Moreover, mimetic isomorphism might also explain the spread of deviant organizational practices such as wage arrears (Earle, Spicer & Peter, 2010).

Second, others (e.g., Garcia-Pont & Nohria, 2002; Greve, 1995; Haas & Park, 2010) have argued that the effect of the behavior of other firms on the diffusion of firm strategies is dependent on the social position of these firms within the organizational field. This is because the actions of high-status firms are not only more legitimizing but also contain more relevant information about the taken-for-granted character of a firm strategy within an organizational field. For example, a focal firm is more likely to mimic other firms which are perceived to have a broad innovation competency because their track record serves as an indicator of the technical value of their innovations within a specific social context (Semadeni & Anderson, 2010). As another example, it has also been argued that firms are more likely to conform to the behavior of their closest competitors which are part of the same strategic group (Garcia-Pont & Nohria, 2002), business group (Greve, 1995, 1996, 1998; Guillen, 2002, 2003), or are occupying the same market niche (Baum & Haveman, 1997; Baum & Oliver, 1997). Furthermore, there exists empirical support for the argument that firms tend to mimic other firms which are similar in size (Han, 1994, Haveman, 1993; Lee & Pennings, 2002), operate in markets of similar size (Greve, 1998), or introduce innovations in related market niches (Kraatz, 1998; Semadeni & Anderson, 2010).

Third, firms may also mimic a subset of firms within the organizational field based on a strategy's observed impact on others (Greve, 2011; Haunschild & Miner, 1997). While mimicking based on the frequency with which a specific strategy is observed or in response to the behavior of other firms with specific traits only allows a focal firm to *estimate* the social value of the strategy, outcome-based mimicking is based on *knowledge* about the social value of the strategy (Greve, 2011). This form of mimicking is thus most closely related to the concept of vicarious learning. In the case of outcome-based mimicking, those at risk of adoption not only observe the behavior of other firms and draw inferences about the legitimacy of the strategy based on their observations but also directly learn from the success or failures of prior adopters. For example, Baum and Ingram (1998) observe that hotels learn from the failures of competitors in close proximity (see also Fernhaber & Li, 2010; Lu, 2002; Myers, 2000; Williamson & Cable, 2003). Similarly, Kim and Miner (2007) show that commercial banks draw important inferences from the failures and near-failures of their competitors. As another example, Rao, Monin and Durand (2003) find that the rate of French chefs abandoning classical cuisine for nouvelle cuisine increased alongside the reputational gains of previous defectors.

2.1.2.4 Institutional Isomorphism in the Literature: A Critique

In addition to the criticism that neoinstitutional theory is not well adapted to explain practice variation within organizational fields, this body of research has also been subject to criticism relating to other key assumptions. While some of this criticism can be seen as a critique of the neoinstitutional literature as a whole, there has been also some dissatisfaction with the work on institutional isomorphism in particular. This criticism can be broadly categorized into three streams. First, neoinstitutional theorists have generally assumed that firms adopting a practice or strategy are motivated by the pursuit of either technical efficiency or legitimacy. This two stage model suggests that early adopters seek to increase technical efficiency whereas late adopters want to obtain legitimacy. This view, however, is very narrow and does not consider the possibility that firms may be interested in both the increase of technical efficiency and legitimacy (Kennedy & Fiss, 2010). Second, there have been concerns about the focus of previous work on mimetic isomorphism. Although DiMaggio and Powell (1983) have not indicated that one mechanisms of isomorphism may be more important than others, the literature has primarily focused on mimetic isomorphism (Mizruchi & Fein, 1999). Third, while the three types of institutional isomorphism are conceptually distinct, DiMaggio and Powell have recognized that these processes are likely to "operate in concert with each other" (1983: 150). However, the literature has moved away from this idea focusing on the independent main effects of the three sources of isomorphism on firm behavior (Greenwood & Meyer, 2008).

The Two-Stage Model of Diffusion. Neoinstitutional theorists have generally adopted a two-stage model when explaining the diffusion of firm strategies. Following a central idea of DiMaggio and Powell (1983) that organizational fields reward conformity rather than technical efficiency, it has been suggested that early adoption of an innovation is most likely directed towards solving specific technical problems and late adoption is then best described as a response to institutional pressures. For example, Westphal *et al.* (1997) argue that the nature of information which is embedded in the behavior of other firms may be contingent upon the stage of institutionalization of the practice. In the early stage, the information may be directly related to the practice as a solution to distinct technical problems a focal organization is facing. Information that is transferred in the later stage, however, is likely to refer to the legitimacy of a practice (see also Tolbert & Zucker, 1983). As such, it seems that theoretical explanations of institutional isomorphism are particularly well adapted to explain the late adoption of institutionalized practices (Bolton, 1993; Mezias, 1990). Thus, neoinstitutional theorists emphasize not the adoption of a particular innovation as such but rather the relationship between adoption motivation (gaining or preserving legitimacy) and timing (Bolton, 1993; Palmer *et al.*, 1989; Westphal *et al.*, 1997; Westphal & Zajac, 1994).

This two-stage model of diffusion, however, has been subject to some criticism. Most notably, it has been argued that the segregation between technical and institutional diffusion processes is problematic because it is based on the assumption that technical and social benefits are mutually exclusive. For example, Staw and Epstein (2000) have suggested that late adopters are indeed willing to trade prospective technical performance for current positive legitimacy effects (see also Barreto & Baden-Fuller, 2006; Westphal *et al.*, 1997). However, the results reported in a number of studies do not support the two-stage model (e.g., Burns & Wholey, 1993; Sherer & Lee, 2002; Xia *et al.*, 2008). Moreover, not only is it difficult to empirically differentiate between technical and institutional diffusion processes (Heugens & Lander, 2009), but the perception of social benefits ensuing from both technical and institutional diffusion itself is potentially institutionally embedded (Lounsbury, 2007). Indeed, as argued by Kennedy and Fiss

(2009), it is somewhat questionable why firms are not motivated by both the pursuit of legitimacy and technical efficiency when adopting a strategy (see also Carberry & King, 2012; Sherer & Lee, 2002). In support of their logic, they find that the perceived opportunity to gain legitimacy explains the early adoption of a practice while late adoption is motivated by a perceived threat to legitimacy. Similarly, Love and Kraatz (2009) show that the negative effects associated with the implementation of a controversial firm practice on firm reputation persist despite its increasing symbolic appropriateness.

The Focus on Mimetic Isomorphism. Interestingly, a study by Mizruchi and Fein (1999) has found that the majority of work within organization studies applying neoinstitutional theory has focused on mimetic isomorphism, thereby ignoring other sources of institutional pressures. Yet, the focus on one form of institutional pressures is problematic as it may only provide an incomplete picture of the phenomenon and results observed in such studies may in fact be due to model misspecification (Torfason & Ingram, 2010). It is important to note, however, that since the criticism has been voiced by Mizruchi and Fein (1999) an increasing number of studies have tested the three sources of institutional pressures simultaneously (e.g., Ang & Michailova, 2008; Busenitz, Gomez & Spencer, 2000; Ensley & Hmieleski, 2005; Hiatt, Sine & Tolbert, 2008; Liang *et al.*, 2007; Torfason & Ingram, 2010). While these studies are important as they demonstrate that the three institutional pressures operate simultaneously, they also reveal differences as to how the different pressures influence the adoption of organizational practices. For instance, Liang *et al.* (2007) find that the effect of mimetic and coercive pressures on the adoption of a practice is mediated by the degree to which top management team members participate in the assimilation of the practice. In contrast, normative pressures are found to only have a direct effect on adoption.

Interrelationship among Isomorphic Processes. Although DiMaggio and Powell have explicitly suggested that the three isomorphic processes are likely to “operate in concert with each other” (1983: 150), the majority of studies drawing on neoinstitutional theory has focused on the independent main effects of one or more of the three forms of institutional isomorphism. As a result of the focus on the independent main effects of the three isomorphic processes, relatively little is known about the degree to which different sources of institutional pressures interact with other. In other words, previous work has assumed that coercive, normative, and mimetic pressures are isolated from one another (Greenwood & Meyer, 2008). Recent work, however, has provided some evidence suggesting that complex interaction effects influence isomorphic processes. For example, it has been found that the existence of activist groups increases a focal organization’s susceptibility to conform to mimetic pressures (Briscoe & Safford, 2008), mimetic pressures increase the positive effect of state laws implement by regulatory institutions (Chuang, Church & Ophir, 2011), and that a country’s informal institutions shape its formal institutions (Holmes, Miller, Hitt & Salmador, 2013). Similarly, Ang, Benischke and Doh (2014) also report that firms are more likely to mimic the behaviour of other firms as differences in national cultures and rules and regulations increase (see also Delmestri & Wezel, 2011). This emerging research has thus challenged the widespread assumption that coercive, normative, and mimetic pressures are isolated from one another.

2.1.3 Neoinstitutional Theory and the MNC

International business strategy scholars have increasingly leveraged neoinstitutional theory to explain MNC behavior (Bruton *et al.*, 2004; Peng, Wang & Jiang, 2008). In this regard, they have primarily drawn on Scott’s (2001) classification of institutions. Scott (2001) has transformed the three types of institutional isomorphism identified by DiMaggio and Powell's (1983) into three distinct pillars of institutions: regulatory, normative, and cognitive. The regulatory pillar corresponds to coercive isomorphism and also highlights the importance of formal and informal regulatory institutions. The normative pillar resembles normative isomorphism and broadly refers to the values, norms, and beliefs about human behavior that are socially accepted within the organizational field. This also includes interorganizational networks such as director interlocks as they allow organizational decision-maker to evaluate the taken-for-granted character of organizational structures and practices. The cognitive pillar parallels the notion of mimetic isomorphism but places greater emphasis on the social construction of the reality. That is, the cognitive pillar describes a process whereby organizational decision-makers interpret and make sense of the reality. In this regard, they create a cognitive map which becomes taken-for-granted over time and reflects the range of solutions they consider in complex decision situations (Ocasio, 1997).

The fact that neoinstitutional theory has gained prominence among international business strategy scholars is not surprising considering that important sources of institutional pressures such as legal systems and human belief systems are often country specific (e.g., Kostova & Zaheer, 1999; Witt & Redding, 2010; Yiu & Makino, 2002; see also Haxhi & van Ees, 2010). In this regard, MNCs present a particular interesting research context for neoinstitutional theorists because of their interaction with multiple host country regulatory, normative, and cognitive institutions. MNCs thus face the challenge of having to manage operations across different host countries each of which features its own set of normative, regulatory, and cognitive pressures (Kostova, 1999; Kostova & Roth, 2002). Specifically, the key argument of much of the work employing neoinstitutional theory is that differences in normative, regulatory, and cognitive institutions between home and host countries create challenges for MNCs that have to adapt their firm-specific resources, strategy, and structure to the organizational field in each host country (Xu & Shenkar, 2002). Difficulties to operate in institutionally distant countries may arise if structures or practices that are taken-for-granted in the home country are not legitimate in the host country (Kostova & Zaheer, 1999) or because of difficulties for MNCs to evaluate which strategies are accepted in the host country (Yiu & Makino, 2002).

The theoretical and empirical evidence suggests that as the difference in the regulatory, normative, and cognitive domains between home and host countries increases, MNCs are likely to limit their resource commitment to operations in these countries (e.g., Chan & Makino, 2007; Gaur & Lu, 2007; Schwens, Eiche & Kabst, 2011; Yiu & Makino, 2002; Xu & Shenkar, 2002) and mimic the strategies of previous market entrants (Ang *et al.*, 2014). Two theoretical arguments underlie these predictions. First, in countries with different institutional profiles, MNCs face greater challenges to obtain local legitimacy due to their unfamiliarity with the expectation of local legitimacy providers (Kostova & Zaheer, 1999). In order to overcome this knowledge barrier, MNCs are inclined to collaborate with local partners so they can tap into their partners' knowledge about the local organizational field. Second, the behavior of other firms creates additional information on which organizational decision-makers can draw in order to reduce their perceived uncertainty (Ang *et al.*, 2014; Yiu & Makino, 2002). As such, neoinstitutional theory has made a significant contribution to the international business literature by drawing attention to the institutional distance between home and host countries (Kostova, 1999; Kostova & Roth, 2002).

Although international business strategy scholars have been primarily interested in the institutional distance between home and host countries, some have also focused on the independent main effects of the host country organizational field on MNC behavior.

Specifically, it has been argued that MNCs are often confronted with organizational fields that potentially pose a threat to firm-specific resources. For example, weak regulatory institutions may potentially allow host country firms to appropriate knowledge and skills from the MNC (Feinberg & Gupta, 2009) and might thus mitigate the effect of networks on the adoption of firm strategies (Lin, Peng, Yang & Sun, 2009). In this situation, MNCs face difficulties to obtain the local resources required to overcome the inefficiencies associated with weak local institutional environments (Chan & Makino, 2007; Meyer *et al.*, 2009). While neoinstitutional theory suggests that firms may generally avoid entering or committing substantial resources to such countries (e.g., Cantwell *et al.*, 2010; Henisz & Delios, 2001; Meyer *et al.*, 2009), Feinberg and Gupta (2009) have argued that firms may also reduce exposure to the local organizational field by increasing operational integration of the subsidiary. Similarly, Slangen and Beugelsdijk (2010) show that vertical activities are more vulnerable to local institutional hazards as these activities are integrated in the MNC network while horizontal activities are often stand-alone activities targeted at the local market.

It is also important to note that the MNC faces not only the fragmented local institutional pressures at the host country level, its need for control and the tendency for organizational replication also puts pressure on local subsidiaries to adopt practices that are consistent with other subunits of the MNC (e.g., Geppert, Williams & Matten, 2003; Lu & Xu, 2006; Rosenzweig & Singh, 1991; Rosenzweig & Nohria, 1994; Souitaris & Zerbinati, 2012; Xu & Lu, 2007). In particular, it has been argued that MNC subunits have to obtain internal legitimacy, defined as “acceptance and approval of an organizational unit by the other units within the firm and, primarily, by the parent company” (Kostova & Zaheer, 1999: 72), to secure ongoing support from other units within the MNC network (Rosenzweig & Nohria, 1994). Therefore, internal consistency has been found to be particularly important if resources are frequently exchanged between local subsidiaries and the headquarter (Bjoerkman, Fey & Park, 2007; Geppert *et al.*, 2003; Rosenzweig & Nohria, 1994). This is because internal consistency allows MNCs to move resources more easily across subsidiaries (Rosenzweig & Nohria, 1994). MNCs also place greater emphasis on internal consistency if institutional distance between home and host countries is relatively small (Kostova & Roth, 2002) or if subsidiaries are managed by expatriate managers (Bjoerkman *et al.*, 2007). However, international joint ventures face particularly strong challenges to obtain internal legitimacy considering that they face pressures from multiple parent firms (Lu & Xu, 2006; Xu & Lu, 2007). From a normative perspective, internal consistency can be desirable because it allows the MNC to draw on previous implementation experiences, thereby reducing the uncertainty regarding the effectiveness of a particular practice (Bjoerkman & Lu, 2001; Kostova & Zaheer, 1999).

Addressing the tension between local adaption and internal consistency, Bjoerkman *et al.* (2007) argue that strategically important HR departments are also in a better position to adopt practices that ensure internal consistency despite institutional pressures to adopt localized HR solutions. Yet, despite the tendency of MNCs to ensure internal consistency, international business strategy scholars continue to underscore the susceptibility of MNCs to local institutional pressures and thus the importance of local adaption. At a basic level, local adaption has been found to be relatively more important in cases where host country institutions mandate the adoption of local practices (Bjoerkman & Lu, 2001; Rosenzweig & Singh, 1991; Rosenzweig & Nohria, 1994). Local adaption may also be particularly critical in order to mitigate the liability of foreignness MNCs face when operating in foreign countries (Zaheer, 1995). The liability of foreignness refers to difficulties local institutions face when evaluating the legitimacy of foreign MNCs (Kostova & Zaheer, 1999). Similarly, Souitaris and Zerbinati (2012) suggest that subunits are more likely to adopt locally accepted behavior if uncertainty about the outcome of strategic decisions is high. In this regard, they also find that the implementation of structures and processes that match the expectations of local legitimacy providers is often not purely symbolic but also directly affects how local MNC subunits are operated.

MNCs can also develop strategies that are specifically designed to deal with the tension between internal consistency and local adaption. For example, Chan and Makino (2007) demonstrate that MNCs increase ownership in foreign subsidiaries in the presence of strong pressures to maintain internal consistency and reduce their ownership stake if confronted with strong institutional pressures from the local organizational field. Their study also suggests that the strength of pressures to maintain internal consistency is generally stronger than pressures for local adaption. Offering an alternative perspective, Ferner, Almond and Colling (2005) show that local subsidiary managers may derive bargaining power from their local organizational field that can subsequently be leveraged to resist the implementation of practices that would ensure internal consistency. In a similar vein, Hillman and Wan (2005) demonstrate that MNC subsidiaries may use political strategies in order to mitigate the pressure for achieving internal consistency. Their study is particularly relevant since their findings also point towards the existence of two discrete sources of legitimacy; sources internal to the firm and sources external to the firm. That is, the work focusing on the tension between internal consistency and local adaption also advances neoinstitutional theory by suggesting that legitimacy – a central construct of neoinstitutional theory – is not necessarily a firm-level phenomenon but can also operate at the subsidiary-level.

Specifically, the concept of legitimacy may also apply to single units within MNCs that have to obtain legitimacy within the MNC network in order to secure critical resources provided by other units (Hillman & Wan, 2005; Kostova, 1999; Kostova & Zaheer, 1999; Rosenzweig & Nohria, 1994). Local subsidiaries thus face the challenge to obtain both internal and external legitimacy. Similarly, international business strategy researchers have also extended previous research that has focused on legitimacy at the level of classes of organizations (e.g., Hannan & Freeman, 1977) by suggesting that MNCs themselves may constitute a class of organizations that may be able to collectively obtain legitimacy within an organizational field (Kostova & Zaheer, 1999; Kostova, Roth & Dacin, 2008). For example, Li, Yang and Yue (2007) find empirical support for their argument that foreign MNCs may benefit from legitimacy spillovers if they join a foreign direct investment community because it allows local legitimacy providers to compare the behaviour of foreign MNCs to a similar class of firms (see also Barreto & Baden-Fuller, 2006). This idea has been supported by others studies in a domestic context. For example, Jonsson, Greve and Fujiwara-Greve (2009) have found that firms are punished with the loss of legitimacy if similar firms within their industry are involved in corporate scandals (see also Barnett & King, 2008; Kuilman & Li, 2009).

2.2 Neoinstitutional Theory and Practice Variation

Although it is important to note that DiMaggio and Powell's seminal work has been motivated by the question "why is there such startling homogeneity of organizational forms and practices" and they also explicitly state that they are seeking to "explain homogeneity, not variation" (1983: 148), there has been an increasing dissatisfaction with the deterministic nature that dominates much of the neoinstitutional literature. Indeed, as mentioned previously, the majority of work employing neoinstitutional theory has focused on explaining the institutionalization of firm strategies. Considering this limited focus of attention, it is not surprising that relatively little is known about why firm responses to pressures emanating from the organizational field vary (Dacin, Goodstein & Scott, 2002; George *et al.*, 2006; Lounsbury, 2001). This has resulted in multiple calls for more robust theoretical and empirical investigations of practice variation within organizational fields (e.g., Greenwood & Meyer, 2008; Kostova *et al.*, 2008). There exists, however, an increasing body of knowledge about practice variation within organizational fields. While the majority of this work has focused on the firm-level and has been particularly interested in explaining institutional change, it provides the foundation for much of the work focusing on individuals as change agents. This work can be broadly categorized into two streams. First, there has been a particularly strong interest among neoinstitutional theorists to study field-wide shifts in taken-for-granted characters, i.e. the processes of deinstitutionalization and institutional change. This stream is particularly well adapted to explain temporal practice variation within organizational fields. Second, another stream has more explicitly focused on variations in the implementation or adoption of institutionalized practices at the firm-level.

2.2.1 Deinstitutionalization and Institutional Change

Since its inception, neoinstitutional theory has faced the criticism that it is not well adapted to explain the processes of institutional change and deinstitutionalization. The seminal contribution by DiMaggio and Powell (1983) has acknowledged that heterogeneity within organizational fields may exist. However, they argued that heterogeneity will disappear over time as organizational fields mature and reach a state of "equilibrium". This equilibrium is the outcome of a structuration process whereby firms develop a mutual awareness "that they are involved in a common enterprise" (DiMaggio & Powell, 1983: 148). The lack of a theoretical apparatus describing the possibility of change has resulted in the observation that neoinstitutional theory "constitutes only half of the picture" (Clegg, 2010: 5). Neoinstitutional theorists have thus developed the concept of institutional entrepreneurship in order to provide a more complete picture of institutional processes including both the institutionalization and deinstitutionalization of firm behavior (DiMaggio, 1988; Seo & Creed, 2002). Importantly, the concept of institutional entrepreneurship is largely built on the idea that institutional entrepreneurs might be able to exploit competing institutional logics to their own advantage. Therefore, there are two sub-streams in the literature that are particularly important to explain deinstitutionalization and institutional change; the work on competing institutional logics and institutional entrepreneurship.

2.2.1.1 Competing Institutional Logics

Institutional logics describe the "symbolic systems, ways of ordering reality, and thereby rendering experience of time and space meaningful" (Friedland & Aldrich, 1991: 243). Similarly, Ocasio describe institutional logics as "formal and informal principles of action, interaction, and interpretation that guide and constrain decision-makers" (1997: 196). Originally, the concept of institutional logics has been introduced to describe the idea that technical rationality is culturally constructed. That is, firms pursuing technical efficiency are seen as following a particular logic (Casile & Blake 2002; Friedland & Alford, 1991; Townley, 2002). In this regard, the work on institutional logics suggests that there is no conflict between social and rational forces as both are institutionally embedded and thus offer alternative sources of firm behaviors (Scott & Meyer, 1994). Said differently, it can be argued that organizational fields set the rules of rationality (Scott, 2001) and institutional logics may thus also include technical ones (Townley, 2002). For example, while technical and institutional effects have traditionally been separated (e.g., Palmer *et al.*, 1989), Lounsbury (2007) has shown that the spread of alternative logics may indeed be driven by institutionally embedded concerns about efficiency and performance (see also Kennedy & Fiss, 2009). Therefore, the notion of institutional logics has been important as it has allowed neoinstitutional theorists to explain the institutional embeddedness of performance and efficiency concerns.

Institutional logics fulfill an important function within organizational fields by legitimating a set of practices that are consistent with the belief system underlying this logic (Lounsbury, 2007; Marquis & Lounsbury, 2007; Thornton, 2002; Thornton & Ocasio, 1999). That is, institutional logics that are shared among field members govern their interaction, define their identities, and set the boundaries of the field (Greenwood & Suddaby 2006). These logics also help organizational decision-makers to import clarity from an otherwise ambiguous organizational field (Levitt & Nass, 1989) by directing their attention to practices that are compatible with relevant meaning systems (Nigam & Ocasio, 2010; Thornton, 2002; Thornton & Ocasio, 1999). Following the idea that institutional logics guide social action (Friedland & Alford, 1991), previous work has been particularly interested in demonstrating that firm behavior is in fact shaped by dominant logics. For example, Thornton and Ocasio (1999) find that institutional logics influence the determinants of executive succession (see also Zajac & Westphal, 2004). Other studies have also linked specific firm practices such as money management (Lounsbury, 2007), organizational founding (Marquis & Lounsbury, 2007) and failure (Hiatt *et al.*, 2009), introduction of business plans (Townley, 2002), or professional finance association founding (Lounsbury, 2002) to dominant institutional logics.

The concept of competing institutional logics has also opened up an alternative avenue to explain organizational change. Specifically, shifts in organizational behavior – often depicted as organizational change – have commonly been explained with economic factors. In contrast, neoinstitutional theorists have attributed organizational change to field-wide shifts in dominant logics. In this regard, it has been argued that determinants of firm behavior are historically contingent (Dunn & Jones, 2010; Galvin, 2002; Kang & Yanadori, 2011; Thornton, 2002; Greenwood, Diaz, Li & Lorente, 2010; Thornton & Ocasio, 1999). For example, Thornton and Ocasio have described institutional logics as "historical pattern of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality" (1999: 804). In other words, institutional logics determine the appropriateness of firm behavior in a given context at particular historical moments. Shifts in underlying dominant logics are thus expected to prompt a process whereby firms initiate change in order to signal to external legitimacy providers that they are willing to conform to these emerging legitimate formal and informal principles to secure their status (Lounsbury, 2002; Thornton & Ocasio, 1999; Townley, 2002). For example, Thornton and Ocasio (1999) have found that determinants of executive succession changed as a result of a shift from an editorial to market logic.

Following these arguments, practice variation within organizational fields arises in the transaction period between two competing institutional logics as it allows organizational decision-makers to choose among different options (Hiatt *et al.*, 2009). Examples of such competing institutional logics each reflecting a different set of legitimate action patterns include the community versus national logic (Marquis & Lounsbury, 2007), the trustee versus performance logic (Lounsbury, 2007), or the editorial versus market logic (Thornton, 2002; Thornton & Ocasio, 1999). Moreover, the emergence of an alternative institutional logic also fosters practice variation by increasing institutional complexity. Institutional complexity refers to the coexistence of multiple logics whose underlying value and norms are incompatible (Chung & Luo, 2008b; Greenwood e*t al.*, 2010; Greenwood, Raynard, Kodeih, Micelotta & Lounsbury, 2011; Jones, Maoret, Massa & Svejenova, 2012). In this situation, decision-makers can create practice variation by improvising in order to accommodate the underlying institutional contradictions in their everyday work. Said differently, individuals that face institutional complexity are not always expected to follow standardized scripts (Dorado, 2005), thereby creating practice variation. These improvisations might represent localized adaptions to institutional complexity but can turn into legitimatized practices as they become standardized arrangements (Smets, Morris & Greenwood, 2012).

Shifts in institutional logics may also result in alterations to the structuration of organizational fields (Galvin, 2002; Walker, Madsen & Carini, 2002). For example, Davis and Mizruchi (1999) have demonstrated that the changing role of commercials banks has significantly changed the structure of director interlocks in the US and subsequently the structure of the normative environment. From this perspective, the alternation of the structure of organizational fields can result in practice variation because it opens up entrepreneurial opportunities. Hiatt *et al.* (2009), for instance, show that the decline of a specific industry segment as a result of changes to the organizational field may result in the emergence of a new segment. Furthermore, competing institutional logics may also facilitate practice variation because the shift to an alternative meaning system is potentially a source of resistance (Marquis & Lounsbury, 2007). For example, the emergence of competing institutional logics poses challenges to existing institutions as the disruptive effect of the introduction of alternative logics might erode their power (Kellogg, 2012). As a result, they might use their coercive resources to enact the competing logic in a way that partially resembles the old logic and thus helps to consolidate and protect their power (Rojas, 2010).

At this point, it is important to note that the majority of the studies noted above have implicitly assumed that practice variation as a result of competing institutional logics is a temporary phenomenon. That is, it has been suggested that conflicts arising from the existence of multiple institutional logics are resolved over time and old logics will give way to a new dominant logic (Thornton & Ocasio 1999; Lounsbury, 2002; McInerney, 2008; Zietsma & Lawrence, 2010). This argument is based on the assumption that institutional logics "separate eras of equilibrium" (Lounsbury, 2007: 302). While the emergence of a new logic temporarily disrupts the equilibrium of the organizational field, the equilibrium will be restored over time; meaning that it is expected that the new logic will eventually completely supersede the old logic. As such, practice variation within organizational fields is expected to be limited to the transition period between two competing logics. In support of this position, Hiatt *et al.* (2009) demonstrate that the shift in dominant logics also influences organizational outcomes including the failure of specific organizational forms that are incompatible with the new logic. The implication of this study is that firms that fail to adapt to the new logic will disappear over time – and so will practice variation with the organizational field.

The view that competing logics and thus practice variation will disappear over time has been challenged by a number of studies (e.g., Crilly *et al.*, 2012; Greenwood e*t al.*, 2010; Lounsbury, 2007; Marquis & Lounsbury, 2007; Purdy & Gray, 2009). For example, Marquis and Lounsbury (2007) show that the acquisition of local banks by larger banks carrying an alternative institutional logic corresponded with an increasing founding rate of banks following the old logic. As a result, the conflicting logics did not disappear over time but they co-existed, yet they started to target different segments of the market. (see also Galvin, 2002). Further support for this argument can be found in the work integrating resource-dependence and neoinstitutional theory. Most notably, Durand and Jourdan (2012) draw attention to the possibility that field-wide conformity creates increasing competition for scarce resources. This is because a large number of firms adhering to a similar logic will also draw on a similar set of resources (see also Leblebici, Salancik, Copay & King, 1991; Sherer & Lee, 2002). In this situation, it is expected that some firms might conform to minority logics in order to mitigate resource scarcity and increase their control over resources.

Alternatively, practice variations within organizational fields may also persist over time if the tensions ensuing from the existence of competing logics are not completely resolved (Marquis & Lounsbury, 2007; Smets *et al.*, 2012). This argument is illustrated in a study by Dunn and Jones (2010) on the competing care and science logics in medical education. They demonstrate that multiple institutional logics can not only coexist but also co-evolve over time. Moreover, the idea that competing logics may persist over time also challenges the assumption by DiMaggio and Powell (1983) that heterogeneity within organizational fields will disappear as the field matures. Rather, the work on competing institutional logics suggests that the potential for practice variation is particularly high as organizational fields mature. In mature organizational fields, the underlying differences between competing organizational logics become widely visible and thus are more likely to create tensions that are difficult to resolve and thus tend to persist over time (Seo & Creed, 2002). Therefore, it is plausible to argue that organizational fields can be subject to multiple, competing logics that form the basis for ongoing practice variation. The concept of institutional logics thus further reinforces the observation that organizational fields are contested (Greenwood & Suddaby, 2006; Rao *et al.*, 2003).

2.2.1.1 Institutional Entrepreneurship

Institutional entrepreneurship research focuses on the explanation of divergent change; i.e., change that challenges existing logics. The notion of institutional entrepreneurship originates in the work by DiMaggio (1988), among others, who introduced the concept to provide a theoretical apparatus that describes the political process which potentially results in the creation of new institutions. From this perspective, institutional entrepreneurs are those actors within the organizational field that create practice variation by purposefully initiating and actively participating in the process of divergent institutional change. These institutional entrepreneurs are seen as "interest-driven, aware, and calculative" (Greenwood & Suddaby, 2006: 29) and may thus support logics that are more compatible with their own self-interests but are currently suppressed by other dominant logics. Their motivation to "break away from scripted patterns of behavior" (Dorado, 2005: 388) is often associated with the pursuit of goals such as the expression of their own identity (Maguire, Hardy & Lawrence, 2004; Wry, Lounsbury & Glynn, 2011), search for solutions to resource scarcity (Sherer & Lee, 2002), or limitation of perceived vulnerability due to weak institutions (Tsui-Auch & Moellering, 2010). Specifically, previous work contends that entrepreneurs' motivations to initiate divergent change are objectively given and are thus often endogenous to organizational fields (e.g., Creed, DeJordy & Lok, 2010; Goodstein, 1994; Greenwood & Suddaby, 2006; Oliver, 1991).

Theoretically, the idea of endogenous institutional change driven by institutional entrepreneurs can be problematic as it raises the question how can institutional entrepreneurs explain institutional change and thus practice variation if these entrepreneurs that may bring about change have been socialized in the very same field they are supposedly trying to challenge (Battilana, Leca & Boxenbaum, 2009; Hirsch & Lounsbury 1997). This problem has been described as the "paradox of embedded agency" (Seo & Creed, 2002). Institutional entrepreneurship scholars are thus confronted with the challenge to describe the role of embedded actors that initiate change within the boundaries of neoinstitutional theory (Dacin, Ventresca & Beal, 1999). Otherwise, they may offer an under-socialized view of change that is incompatible with existing theory (Delmestri, 2006). For example, Goodrick and Salancik (1996) criticize the work drawing on a strategic choice perspective to explain the role of agency in institutional processes as it simply treats the organizational field as a constraint that can be managed (see also Lawrence, 1999). In particular, they find it problematic that this work infers that organizational fields are of no specific importance to organizational life as they can simply be managed by the firm (e.g., Goodrick & Salancik, 1996; Goodstein, 1994; Oliver, 1991) like other constraints such as product market competition. The challenge for neoinstitutional scholars is thus to provide a theoretical apparatus that addresses the issue of embedded agency without discounting the importance of the organizational field.

Previous work has addressed the issue of embedded agency by borrowing from several theoretical perspectives including structuration theory (e.g., Barley & Tolbert 1997; Lawrence, 1999) or social movement theory (e.g., Briscoe & Safford, 2008; Haveman, Rao & Paruchuri, 2007; Hiatt *et al.*, 2009; Sine & Lee, 2009). The majority of work, however, has drawn on the concept of competing institutional logics in order to explain how embedded institutional entrepreneurs can bring about change to organizational fields. In particular, it has been argued that competing institutional logics are a requisite for change being possible (Greenwood & Suddaby, 2006; Seo & Creed 2002). Competing logics create contradictions within the organizational field (Holm, 1995; Purdy & Gray, 2009) which institutional entrepreneurs can subsequently exploit to their advantage (Chung & Luo, 2008b; Seo & Creed 2002; Suddaby & Greenwood, 2005). In this regard, Seo and Creed contend that “human agency for institutional change is inseparable from institutional contradictions” (2002: 231). For example, institutional entrepreneurs can exploit competing institutional logics by showing that existing logics are ill-suited to guide action (Rao *et al.*, 2003). Similarly, Goodrick and Salancik (1996) suggest that institutional entrepreneurs are also able to opportunistically exploit uncertain institutional norms such as ambiguous expectations as to how an institutionalized goal such profit maximization should be achieved.

Institutional entrepreneurs, however, are not only able to exploit competing institutional logics or uncertain institutional norms but can also actively create these conditions. For example, Zietsma and Lawrence argue that institutional entrepreneurs are those actors that seek to "establish, expand, reinforce, or undermine boundaries" (2010: 194) of the organizational field. By transforming the boundaries of the organizational field, they open the field to contradictions that can subsequently be exploited to initiate divergent change (Kellogg, 2012; Zietsma & Lawrence, 2010). Moreover, previous work has also suggested that institutional entrepreneurs engage in identity work to resolve the experience of competing institutional logics (Chung & Luo, 2008b; Creed *et al.*, 2010; Lok, 2010). This enables institutional entrepreneurs to actively employ established logics and initiate change at the same time. As such, an important distinction between the work on institutional entrepreneurship and competing institutional logics is the source of institutional change. While research on competing institutional logics is particularly well adapted to explain change that is driven by exogenous factors, the institutional entrepreneurship literature has more explicitly focused on the question how agents themselves can bring change to institutional environments (Battilana & Casciaro, 2012; Battilana *et al.*, 2009). That is, institutional entrepreneurs themselves are seen as an important source of competing institutional logics.

Traditionally, it has been suggested that institutional entrepreneurs emerge at the periphery of organizational fields (e.g., Battilana, 2011; DiMaggio, 1988; Garud *et al.*, 2002; Leblebici *et al.*, 1991; Maguire *et al.*, 2004; Westphal *et al.*, 1997). These actors are in a challenger position because they are less privileged by current institutional arrangements and thus have less to lose from challenging the social norm. In fact, by challenging existing meaning systems, these actors may be able to improve their position within the field (Fligstein, 2001; Leblebici *et al.*, 1991). On the contrary, others (Greenwood & Suddaby 2006; Greenwood *et al.*, 2002; Helms *et al.*, 2012; Sherer & Lee, 2002) have focused on the role of dominant actors as institutional entrepreneurs. While these dominant actors are privileged by current dominant institutional logics, there are circumstances that can facilitate their receptiveness to institutional change. For example, these actors may initiate change in order to consolidate or protect their power (Rojas, 2010) and legitimacy (Castel & Friedberg, 2010). Moreover, it has been argued that they are in a better position to resist coercive and normative pressures due to their elite status and their change efforts thus have a greater likelihood of success than do similar efforts by challengers (Greenwood & Suddaby 2006). It is also possible that a mix between challengers and dominant actors may form coalitions that act as institutional entrepreneurs (e.g., Castel & Friedberg 2000).

The process whereby institutional entrepreneurs establish new institutions within organizational fields can be broadly broken down into three distinct phases. First, institutional entrepreneurs need to recognize an opportunity for institutional change. Some of these opportunities may arise from exogenous jolts such as social, technological, or regulatory events that disrupt existing meaning systems (Battilana 2011; Chung & Luo, 2008a; Jones *et al.*, 2012; Lamberg & Pajunen, 2010; Seo & Creed, 2002; Sine & Lee, 2009). The majority of institutional entrepreneurship researchers, however, suggest that such opportunities arise from factors endogenous to organizational fields (Fligstein, 1997; Greenwood *et al.*, 2002; Helms *et al.*, 2012; Reay, Golden-Biddle & Germann, 2006; Sherer & Lee, 2002). For example, Reay *et al.* (2006) contend that institutional entrepreneurs might identify and cultivate opportunities that are related to their previous experiences, social networks, and sophisticated understanding of the context in which they are embedded (see also Castel & Friedberg 2010; Greenwood & Suddaby, 2006; Sanders & Tuschke, 2007). Moreover, Tracey, Phillips and Jarvis (2011) suggest that institutional entrepreneurs might recognize an opportunity for change by framing a problem in a way that differs from existing logics. Institutional entrepreneurs may also be able to identify opportunities for change arising from unintended consequences of the institutionalization of a related practice (Leblebici *et al.*, 1991). Similarly, McInerney (2008) describes how an institutional entrepreneur can take advantage of the failure of another institutional entrepreneur.

Second, institutional entrepreneurs must design an alternative to existing logics (Tracey *et al.* 2011). These alternative logics may be partially based on models prevalent in other organizational fields (Greenwood & Suddaby, 2006; Sanders & Tuschke, 2007), the recombination of parts of existing logics (Etzion & Ferraro 2010; Hargadon & Douglas, 2001; Lounsbury, 2007), or the experience of the entrepreneur (Castel & Friedberg, 2010; Maguire *et al.*, 2004; Simons & Roberts, 2008; Tracey *et al*., 2011). For example, Hargadon and Douglas (2001) emphasize in their historical case study the importance of the way an innovation that challenges existing institutional arrangements is designed. Specifically, they argue that institutional entrepreneurs must design alternatives to existing logics in a way that allows other actors to relate elements of the new institutional logic to parts of existing logics (see also Etzion & Ferraro 2010; Lounsbury 2007). In a similar vein, Aldrich and Fiol (1994) argue that institutional entrepreneurs face the challenge to maintain their uniqueness – i.e., promoting a logic that is different to existing logics – while, at the same time, ensuring that the organization field can readily relate to the new logic. This concern is also echoed in a theoretical contribution by Misangyi, Weaver and Elms. They suggest that institutional change is the result of the interplay between existing and new institutional logics. Specifically, they argue that new institutional logics “must be given some coherence with the existing institutional logic” (2008: 762).

The careful design of an alternative logic is also critical in order to be able to accumulate social resources – such as normative, cognitive, and regulatory support – required to mobilize others (DiMaggio, 1988). The mobilization of internal and external support is necessary in order to overcome the strong resistance from actors safeguarding dominant institutional logics (Briscoe & Safford, 2008; Misangyi *et al.*, 2008; Rao *et al.*, 2003; Garud *et al.*, 2002). Because institutional entrepreneurs cannot draw on established criteria for legitimacy (Aldrich & Fiol, 1994; Jones *et al.*, 2012; Suddaby & Greenwood, 2005), this process encompasses the identification of potential political opportunities (Holm, 1995; Kim *et al.*, 2007; McInerney, 2008; Oezen & Akkemik, 2012; Rojas, 2010), mobilization of environmental groups (Sine & Lee, 2009), or the use of discourse strategies through which emerging logics are discussed and endorsed (Aldrich & Fiol, 1994; Fligstein, 1997; Greenwood *et al.*, 2002; Tracey *et al.*, 2011; Wry *et al.*, 2011). These discourse strategies often involve the re-framing of critical issues (Briscoe & Safford, 2008; Garud *et al.*, 2002; Lok, 2010; Maguire *et al.*, 2004; Misangyi *et al.*, 2008; Sine & Lee, 2009) or creation of analogies (Etzion & Ferraro 2010; Hargadon & Douglas, 2001; Leblebici *et al.*, 1991). In a similar vein, Aldrich and Fiol (1994) argue that institutional entrepreneurs need to employ organizational, intraindustry, interindustry, and institutional strategies to accumulate social resources required to create and sustain a new industry.

Alternatively, institutional entrepreneurs might also be able to access critical social resources required to initiate change if they occupy a powerful position within the field (Greenwood & Suddaby, 2006; Lok, 2010; Lawrence, 1999; Maguire *et al.*, 2004; McInerney, 2008; Rao *et al.*, 2003; Sanders & Tuschke, 2007; Sherer & Lee, 2002). As noted above, institutional change can also emerge from the center of organizational fields (see also Greenwood *et al.*, 2002; Helms *et al.*, 2012; Sherer & Lee, 2002). In contrast to institutional entrepreneurs that are positioned at the periphery of the field, these entrepreneurs often have the advantage of already having access to a critical amount of social resources (Greenwood & Suddaby, 2006; Hargadon & Douglas, 2001; Lawrence, 1999). For example, Maguire *et al.* (2004) found that institutional entrepreneurs are most successful at exploiting institutional contradictions if they occupy strategic positions that allow them to bridge differences between different stakeholder groups (see also Reay *et al.*, 2006). As another example, Sanders and Tuschke (2007) show how firms may introduce institutionally contested-practices in new environments because they have been exposed to these practices in other prestigious organizational fields (see also Dokko & Gaba, 2012; Lawrence, Hardy & Phillips, 2002). Theoretically, these findings suggest that institutional entrepreneurs' structural position is important because it affects not only the degree to which have been exposed to alternative logics but also influences their access to social resources.

Third, institutional entrepreneurs need to ensure the re-institutionalization of the new logic. In general, new logics are considered to be institutionalized if they acquire a taken-for-granted status (Maguire *et al.*, 2004; Palmer *et al.*, 1993) and thus guarantee the ongoing mobilization of other actors that support the new practice (Ansari & Phillips, 2011; Holm, 1995; Kellogg, 2012; Zietsma & Lawrence, 2010). Such ongoing mobilization efforts are particularly important when institutional entrepreneurs face continued resistance from within the organizational field (Garud *et al.*, 2002; Jones *et al.*, 2012; Kellogg, 2012; Kim *et al.*, 2007; Maguire *et al.*, 2004; McInerney, 2008). This problem can be overcome, for example, if institutional entrepreneurs pay ongoing attention to the removal of system barriers that potentially prevent the integration of new practices into established systems (Reay *et al.*, 2006) or if they form powerful coalitions that are immune to the tactics of those protecting the status quo (Castel & Friedberg 2010; Kellogg, 2012; Oliver & Montgomery, 2008). In addition to constant reaffirmation that practices are consistent with new institutional logics, institutional entrepreneurs also have to focus on the integration of new practices in organizational routines (Maguire *et al.*, 2004; Reay *et al.*, 2006). The constant re-enactment of new practices that are embedded in existing organizational routines ensures that these new practices are perceived to be taken-for-granted over time (Anand & Watson, 2004; Dacin *et al.*, 2010; Suddaby, Elsbach, Greenwood, Meyer & Zilber, 2010).

2.2.2 Practice Variation in the Diffusion of Firm Behaviors

While the stream focusing on deinstitutionalization and institutional change has primarily addressed the emergence of new competing institutional logics, field-wide change, and how institutional entrepreneurs may shape such change, researchers exploring practice variation in the diffusion of firm behaviors have been more interested in firm-level differences in the adoption and implementation of institutionalized strategies. As such, this work has been particularly important to the strategy literature as the exploration of heterogeneity in firm behavior is a core theme in strategy research (Powell *et al.*, 2011). Within this stream of research, there are two sub-streams that address different aspects of practice variations in the diffusion of firm behaviors. First, there has been an increasing interest in the discrepancy between the adoption of a strategy and its implementation; a process described as decoupling. Second, others have explored the question why some firms are more susceptible to institutional pressures than others, thereby focusing on the decision to adopt or not to adopt an institutionalized strategy. These two sub-streams are distinct in that the first stream is only designed to explain variations in the degree of strategy *implementation* while the second stream focuses on variations in the strategy *adoption*.

2.2.2.1 Decoupling

The idea of decoupling is rooted in Meyer and Rowan's (1977) influential work. A central tenet of their study is that firms create myths about their behaviors in order to signal to the organizational field that they are prudent of the expectations of external legitimacy providers (see also Zott & Huy, 2007). This has been interpreted as the possibility that firms might ceremonially adopt a formal policy without actually implementing it (e.g., Edelman, 1992; Westphal & Zajac, 1994, 2001), a process defined as "decoupling". Yet, while Meyer and Rowan (1977) have initially conceptualized decoupling as a firm response to conflicting stakeholder expectations (see also George *et al.*, 2006), it is now seen as an option for firms to resolve tensions arising from institutional pressures that are in conflict with firm interests. For example, firms may formally adopt legal-ethical compliance programs that are designed to reduce organizational misconduct but decouple them from their core business activities by avoiding integration of critical elements of the program (MacLean & Behnam, 2010). Thus, the concept of decoupling allows neoinstitutional theorists to explain practice variation within organizational fields even in cases where responses to external institutional pressures seem to be homogenous.

The literature suggests that there are two mechanisms of conformity (Friedland & Alford, 1991; Lepoutre & Valente, 2012; Zott & Huy, 2007): symbolic carriers and material carriers. Symbolic carriers have generally been considered as the most important mechanism of conformity and refer to taken-for-granted rules and belief systems that determine what behavior is appropriate within a specific organizational field (Meyer & Rowan, 1977). However, as mentioned previously, these taken-for-granted rules and belief systems are not self-reproducing and require considerable maintenance work. This mechanism of conformity is described as material carriers and refers to routines, history, and relationships that support the implementation and maintenance of meaning systems (Zott & Huy, 2007). From a decoupling perspective, it is important to note that some firms might not be immune to symbolic carriers of conformity but might be able to resist material carriers. That is, firms might recognize that it is important to ceremonially conform to the taken-for-granted practices prevalent in the organizational field (symbolic carriers) but they might resist the translation of these practices in formal routines and policies (material carriers) (Lepoutre & Valente, 2012; Short & Toffel, 2010). In this situation, firms that decouple adoption from implementation are able acquire legitimacy by ceremonially adopting an institutionalized strategy without having to change business practices because the adopted strategy is not translated into practice (MacLean & Behnam, 2010; Westphal & Zajac, 1994).

From a decoupling perspective, it is even possible to argue that strong institutional pressures serve as a vehicle for practice variation within organizational fields. Specifically, instead of adopting taken-for-granted organizational practices in response to strong institutional pressures, firms may choose to conform to alternative requirements in order to justify their noncompliance with the original social expectations. This response has been defined as substitution response (Okhmatovskiy & David, 2012: 155). Similarly, Carberry and King (2012) suggest that firms conform to alternative logics in order to decouple their actions from the illegitimate behavior of similar firms. Decoupling may thus help to stop the spread of legitimacy losses which are the result of the fact that audiences generalize from the behavior of one firm to others that are similar (Jonsson *et al.*, 2009). In this regard, previous work has generally suggested that either factors internal to the firm (e.g., Fiss & Zajac, 2004; Westphal & Zajac, 1994) or factors external to the firm (e.g. Christmann & Taylor, 2006; Westphal & Zajac, 2001) explain decoupling. Alternatively, Crilly *et al.* (2012) argue that the interplay between internal and external factors explains the choice between decoupling and implementation.

A small set of studies has also suggested that firms may decouple practices from their original institutional context and tailor them in a way that is consistent with their own organizational field (e.g., Fiss & Zajac, 2004; Yoshikawa, Tsui-Auch & McGuire, 2007). Said differently, firms only selectively implement aspects of a practice that fits the local organizational field. For example, Buck and Shahrim (2005) show that firms adopt executive stock options in response to institutional pressures but customize it in accordance with the norms and values prevalent in the local organizational field. This idea is also in the spirit of related work suggesting that organizational fields and firm behavior co-evolve (e.g., Cantwell *et al.*, 2010; Dieleman & Sachs, 2008; Flier, van den Bosch & Volberda, 2003; Rodrigues & Child, 2003). That is, while it is generally assumed that organizational fields exert pressures on firms, it is also possible that firms that decouple practices from their original organizational field influence regulatory institutions to implement formal rules that accommodate the practices that are selectively transferred to the firm's own organizational field (Yoshikawa *et al.*, 2007). Therefore, the concept of decoupling is not limited to the idea that firms may choose not to formally implement practices that have been ceremonially adopted. Rather, it is complemented by the notion that firms may decouple practices from their original institutional context and tailor them in order to make them fit their own organizational field (Westney, 1993; Yoshikawa *et al.*, 2007).

There is strong empirical evidence supporting these theoretical arguments. Early studies have found that firms decouple illegitimate actions of their organizational members from formal firm structures and practices (Elsbach, 1994; Elsbach & Sutton,

1992) and are more likely to decouple in the presence of legal ambiguity, procedural constraints, and weak enforcement mechanisms (Edelman, 1992; see also Oezen & Akkemik, 2012; Short & Toffel, 2010). Moreover, Lounsbury (2001) have found that larger universities with student environmental groups are more likely to show a substantive response to pressures to adopt recycling programs. Similarly, Fiss and Zajac (2004) report that German firms differ both in the degree to which they espouse a shareholder value orientation and the actual implementation of related governance practices (see also Lok, 2010). As another example, Westphal and Zajac (1994) demonstrate that powerful CEOs are more likely to decouple if the adopted strategy directly affects them in a negative way (see also Fiss & Zajac, 2004; Westphal & Zajac, 2001). Lastly, Westphal and Zajac (2001) provide the first empirical evidence showing that decoupling itself may become institutionalized at the firm-level and Okhmatovskiy and David (2012) report that profitability and ownership concentration are positively related to the ceremonial adoption of alternative requirements (see also Kang & Yanadori, 2011).

A few studies have also explored the effect of decoupling on legitimacy and have found that decoupling in fact increases legitimacy. For example, Westphal and Zajac (1998) found that the adoption of governance policies have a positive effect on the stock price despite decoupling. Furthermore, Elsbach and Sutton (1992) have shown that firms can gain legitimacy by decoupling illegitimate actions of organizational members from legitimate firm structures and processes, thereby drawing attention away from the contested actions and towards the legitimate firm-specific goals that are consistent with the values and norms prevalent in the organizational field (see also Elsbach, 1994). Interestingly, a more recent study by MacLean and Behnam (2010) offers an alternative perspective. Their study suggests that although firms that decouple compliance structures from day-to-day work processes are likely to initially gain external legitimacy, in the long term decoupling will increase the likelihood that the avoidance of implementation is detected because employees fail to consistently enact the institutionalized strategy. The work by MacLean and Behnam (2010) also suggests that decoupling might have unintended negative effects on the workforce by fostering cynicism within the firm (see also Ashforth & Gibbs, 1990). In a similar vein, Boiral (2007) reports in his qualitative study that decoupling potentially creates tensions between those that believe in the benefits of adoption and those that see the adoption as a ceremonial act.

The evidence presented above points towards the difficulties firms are facing to maintain their facade over time if they decouple adoption from formal implementation. While firms have strong incentives to uphold the façade by communicating to external legitimacy providers that the firm complies with their expectations, the internal reality of the lack of implementation leads to problems of "coherence, credibility, and even hypocrisy within the organizations" (Boiral, 2007: 139; see also Boiral, 2003). It is thus questionable if firms that decouple adoption from implementation are always able to exploit the ignorance of external legitimacy providers (Boiral, 2003; Crilly *et al.*, 2012). That is, while the literature assumes that decoupling is possible because external legitimacy providers are reluctant to effectively monitor further compliance after firms have ceremonially adopted an institutionalized strategy (Meyer & Rowan, 1977), firms may only be able to benefit from decoupling for a limited period of time. For example, Tilcsik (2010) suggests that decoupling may not persist over time if a shift in logics occurs within the firm as a result of the discrepancy between adoption and implementation. In particular, if actors that are entrusted with the task to protect the "facade" form powerful alliances, they might subsequently be able close the gap between formal policies and actual practice.

2.2.2.2 Barriers to the Adoption of Institutionalized Practices

While the literature on decoupling has been primarily interested in firm-level differences in the implementation of institutionalized strategies, a number of scholars have also explored differences in the adoption of institutionalized strategies. Four themes have emerged from this literature. First, there has been widespread interest in temporal differences in the adoption of firm strategies. As such, this work has followed the two-stage model proposed by Tolbert and Zucker (1983). As mentioned previously, neoinstitutional theorists have argued that early adoption is directed at solving specific technical problems and late adoption is then best described as a response to institutional pressures. That is, late adopters conform to the behavior of others in order to preserve or gain legitimacy rather than to improve technical efficiency (DiMaggio & Powell, 1983). A number of studies have found empirical evidence supporting the proposed relationship between adoption motivation (i.e., technical gains versus gaining or preserving legitimacy) and timing (Bolton, 1993; Palmer *et al.*, 1993; Westphal *et al.*, 1997; Westphal & Zajac, 1994; for a notable exception see Kang & Yanadori, 2011). For example, Bolton (1993) shows that the performance of early adopters is relatively lower than the performance of late adopters. In a similar vein, Greve (2002) reports that firms tend to only adopt the more recent location strategies of other firms. This finding further points towards the importance of timing in institutional processes.

Second, it has been suggested that the diffusion of firm strategies is dependent on the geographic proximity between nonadopters and adopters. In general, it has been argued that firms are more likely to adopt the strategies of other firms in close proximity. This is because firms that are located in close proximity are considered to be more relevant (Baum, Li & Usher, 2000; Burns & Wholey, 1993; Weber, Davis & Lounsbury, 2009) and organizational decision-makers are more likely to be aware of the actions of nearby competitors (Greve, 1995, 2011; Okhmatovskiy & David, 2012; Purdy & Gray, 2009; Washington & Ventresca, 2004). Spatial effects may also explain firm-level differences in the adoption of institutionalized strategies through other mechanisms. Most notably, neoinstitutional theorists argue that the density of firms within a market conveys important information about the legitimacy of the market (Fligstein, 1985) and resources available in the market (Baum & Oliver, 1996; Greve, 1995, 2000) to potential market entrants. Thus, it has been argued that newly established firms (Baum & Oliver, 1996) or firms that diversify into other markets (Greve, 1996; 2000) have an incentive to follow the location strategies of other firms. However, there is also evidence suggesting that some firms also avoid the location strategies previously adopted by other firms (Greve, 2002) as a large number of other firms suggests that the competitive intensity is potentially higher (Baum & Haveman, 1997; Baum *et al.*, 2000).

Third, the status of the firm at risk of adoption might also determine whether they follow others or resist institutional pressures. Specifically, it has been argued that high-status firms are in a better position to resist institutional pressures as their status insulates them from risks associated with nonconformity (Bjoerkman *et al.*, 2007; Davis & Greve, 1997; Zuckerman, 2000). For example, Han (1994) demonstrates that second tier firms exhibit the strongest imitation behavior while top tier and third tier firms rarely imitate, Davis (1991) shows that some high-status firms with numerous network ties never imitate regardless of the actions of its tied-to firms, and Shipilov *et al.* (2010) report that high-status boards of directors are slow to adopt new practices. However, although high-status firms are less likely to adopt institutionalized practices, if they choose to adopt, their adoption decision serves as a particularly strong force facilitating the subsequent diffusion of the strategy (Burns & Wholey, 1993; Haunschild & Miner, 1997; Rao *et al.*, 2003; Haveman, 1993). Importantly, the logic that high-status firm are more likely to resist institutional pressures is not supported by all authors. For instance, Julian *et al.* (2008) argue that firms that are particularly visible are less likely to resist institutional pressures because they attract the attention of interest groups advocating for change (see also Alakent & Lee, 2010; Goodstein, 1994; Haveman *et al.*, 2007; Ingram & Simons, 1995; Kang & Yanadori, 2011; Okhmatovskiy & David, 2012).

The status of a firm might also be directly related to its ownership. Owners are a particularly important stakeholder group influencing firm behavior (Cui & Jiang, 2012; Fiss & Zajac, 2004; Goodrick & Salancik, 1996; Jonsson & Regner, 2009). This is also relevant regarding firm responses to external institutional pressures. While some firm owners are hesitant to resisting institutional pressures as nonconformity might also affect their reputation, other owners are more open to challenging dominant meaning systems (Alakent & Lee, 2010; Jonsson & Regner, 2009). For example, previous work has demonstrated that ownership patterns play an important role in predicting the adoption of controversial management practices such as the "Golden Parachute" (Davis & Greve, 1997) or a shareholder value orientation (Fiss & Zajac, 2004). Similarly, Mayer and Whittington (2004) suggest that owners may also resist institutional pressures if conformity could result in a loss of power. However, they only find limited empirical evidence supporting their logic. Moreover, Jonsson and Regner (2009) report that firms with owners that tend to evaluate strategies that challenge existing meaning systems negatively are generally slower to imitate such strategies. Lastly, Love and Cebon (2008) show that publicly-held firms are more susceptible to institutional pressures compared to their privately-held counterparts. Specifically, they argue that publicly-held firms are more exposed to the pressures of important external legitimacy-providers such as investment analysis and institutional investors than privately-held firms.

Forth, firm-level differences in the adoption of institutionalized strategies might also be explained by experience effects. At a basic level, it can be argued that firms are less likely to conform to the behavior of other firms if they possess relevant experience (Benner & Tripsas, 2012; Lu, 2002; Salomon & Wu, 2012). This is because firm-specific experience is most likely to be a critical determinant of decision uncertainty (Levitt & March, 1988). While inexperienced firms face greater levels of uncertainty and might thus be more inclined to respond to institutional pressures, experienced firms are confronted with less uncertainty and are thus more likely to resist these pressures (Alakent & Lee, 2010; Benner & Tripsas, 2012). For example, Lu (2002) demonstrates that firms with international experience are less likely to imitate the entry modes previously adopted by other firms. Moreover, Salomon and Wu (2012) find some evidence for their argument that firm-specific experience negatively moderates the imitation behavior of MNCs in institutionally distant countries. Similarly, Kraatz and Moore (2002) show that executives that have been exposed to alternative models prior to working at the focal firm are more likely to initiate institutional change suggesting that previous experiences might be an important antecedent of change (see also Dokko & Gaba, 2012).

In a similar vein, Xia, Boal and Delios (2009) have argued that the interaction between institutional environments and firm strategies is dynamic and reflexive (see also Cantwell *et al.*, 2010). Their results show that entry patterns of US firms entering the Eastern European region shift alongside changes in the institutional environment. However, these shifts are only observed for firms without local experience. Firms that possess relevant experience are likely to persist with their initial entry strategies due to inertial forces that outweigh the pursuit of opportunities that opened up due to the changing institutional environment. These findings thus offer an alternative explanation as to how the tensions between institutional change and inertia (due to prior experience) might lead to practice variation within organizational fields. Alternatively, experience effects might also indirectly influence conformity to prevalent norms in that decision-makers' prior experience determines their focus of attention. As they cannot monitor all other firms within their organizational field, their focus of attention will be limited to a subset of other firms that are considered to be particularly relevant such as direct competitors. As a result, there exist "blind spots" in organizational fields (Ng, Westgren & Sonka, 2009) and firms might thus only selectively conform to the behavior of a subset of firms (Haunschild & Miner, 1997).

So far, the discussion about firm-specific experiences and practice variation has focused on the initial adoption of a specific strategy such as location choice or governance mode strategy. Over time, firms are also likely to reduce the uncertainty they had initially faced when entering new organizational fields and have also developed a more in-depth understanding of the local market, customer demands, and competition (Benner & Tripsas, 2012). These firm-specific experience effects can also influence subsequent strategic decisions. For example, Guillen (2002) shows that firms imitate other firms only when first entering a foreign market but once they have gained host-country specific experience this effect diminishes (see also Capron & Guillen, 2009). Similarly, Benner and Tripsas (2012) find that firms that accumulate relevant experience are less committed to product features that have initially been adopted in an imitative manner. Lastly, Belderbos, van Olffen and Zou (2011) also demonstrate that firms with experience in a given country are less likely to look for reference points in their environment when deciding on the location for additional operations in other regions within the same country. Interestingly, this effect can only be observed for trait-based imitation and not for frequency-based imitation, meaning that even experienced firms might still follow other firms with specific traits.

2.2.3 Practice Variation and the MNC

While neoinstitutional theory has prominently featured in the international business strategy literature (Peng *et al.*, 2008), comparatively little is known about MNCs and practice variation within organizational fields. This paucity of research is somewhat surprising considering that international business strategy scholars have the potential to be at the forefront of the work exploring the notion of practice variation within neoinstitutional theory (Kostova *et al.*, 2008). This is because MNCs are embedded in multiple social systems and are thus exposed to a number of alternative practices and strategies that can be transferred across host countries (Souitaris *et al.* 2012). Moreover, Kostova *et al.* (2008) argue that MNCs may constitute their own organizational field with practices and structures that are legitimate across host countries. Specifically, they suggest that the liability of foreignness actually endows MNCs with the discretion to decide to what degree they conform to host country institutional pressures. Similarly, Kwok and Tadesse (2006) demonstrate that the presence of MNCs reduces the overall prevalence of corruption. This finding suggests that MNCs may in fact be shielded from host country pressures to engage in bribery and subsequently reduce the overall prevalence of this practice in the host country. Nonetheless, only until recently has there been an increasing interest in explaining heterogeneous responses to external institutional pressures among international business strategy scholars.

At a basic level, there is agreement that country-level institutions explain practice variation across countries (e.g., Bjoerkman *et al.*, 2007; Bruton *et al.*, 2009; Buck & Shahrim, 2005; Henderson & Cool, 2003; Hitt, Ahlstrom, Dacin, Levitas & Svobodina, 2004; Kogut, Walker & Anand, 2002). Research associated with this "comparative-institutionalism" approach has been built on the argument that organizational fields are country-specific with each country featuring its unique cognitive, normative, and regulatory environment (e.g., Kostova & Zaheer, 1999; Witt & Redding, 2010; Yiu & Makino, 2002; see also Haxhi & van Ees, 2010). For example, Buck and Shahrim (2005) have argued that firms modify organizational innovations originating in other organizational fields based on their normative orientation (see also Jensen & Szulanski, 2004; Ferner *et al.*, 2005). The origins of this argument can be traced back to the original study by DiMaggio and Powell (1983) in which the authors have also explicitly considered the possibility that the degree of isomorphism varies across organizational fields. As such, there is agreement in the literature that country-level institutions account for different levels of across-country practice variation. The key arguments presented here are also consistent with some related work which has suggested that national organizational fields are characterized by different levels of heterogeneity among firms (Jackson & Deeg, 2008).

Extending the work noted above, it has also been argued that the institutional distance between home and host countries may explain practice variation within countries. While the comparative-institutionalism approach has focused on explaining across-country practice variation, this stream of research has explored the effect of institutional differences between home and host countries on practice variation. Most notably, Salomon and Wu (2012) have suggested that country-level factors such as institutional distance between home and host countries influences practice variation (see also Jensen & Szulanski, 2004). In particular, they show that MNCs are more likely to conform to the behavior of other firms as institutional distance between home and host countries increases. Similarly, Ang *et al.* (2014) demonstrate that MNCs are more likely to mimic the entry mode choices of previous market entrants as normative and regulatory distance between home and host countries increases. Taken together, these studies suggest that the degree of practice variation within a country is directly related to the institutional distance between home and host countries of MNCs operating within the country. That is, if the majority of MNCs operating in a specific country originates from an institutionally distant country, the overall degree of practice variation is expected to be relatively low and vice versa. However, both the work associated with the comparative-institutionalism approach and research focusing on the effect of institutional distance on practice variation offers only limited insights in the question *how* MNCs may create practice variation within organizational fields.

Addressing these concerns, some recent work has started to more directly draw on the institutional entrepreneurship literature to explain practice variation among MNCs. As such, it has been suggested that MNCs – like other institutional entrepreneurs – that are willing to resist, enact, or even change local institutional norms need to accumulate social resources in order to be able to introduce legitimate competing logics to established norms. For example, Pinkse and Kolk (2012) suggest that MNCs that accumulate social resources by accessing local legitimacy are more likely to be able to contribute to Green market development. MNCs, however, face difficulties to accrue sufficient social resources due to their liability of foreignness (Zaheer, 1995). Therefore, these studies are built on the assumption that MNCs have to first overcome their liability of foreignness in order to be able to resist host country institutional pressures. In this regard, Kostova and Roth (2002) suggest that the liability of foreignness is overcome as the embeddedness of foreign MNCs in local institutional contexts increases (see also Pinkse & Kolk, 2012; Yiu & Makino, 2002). As the embeddedness of foreign MNCs in local institutional contexts is dependent on their initial conformity to these pressures (Salomon & Wu, 2012), the underlying logic of this work is that MNCs' ability to resist institutional pressures requires some degree of conformity to the local institutional context which endows them with the social resources necessary to subsequently pursue their self-interests.

A different perspective is offered by Cantwell *et al.* (2010). Their exploratory study makes two claims that are relevant in the context of MNCs and practice variation. First, they suggest that MNCs may in fact conform to institutional pressures not because they are forced to do so but rather as a result of "choice". Second, they argue that MNCs employ three strategies when operating in foreign organizational fields: institutional avoidance (MNCs may exit unfavorable organizational fields), institutional adaption (MNCs seek to adjust to the local organizational field), or institutional co-evolution (MNCs actively seek to change local organizational fields to their advantage). In particular, weak local organizational fields may allow MNCs to adopt a strategy of institutional co-evolution (see also Oezen & Akkemik, 2012; Short & Toffel, 2010). Similarly, Bruton *et al.* (2009) show in their comparative study that venture capital firms are more likely to engage in institutional entrepreneurship in countries with weak institutions compared to countries with more advanced institutions. Interestingly, Tsui-Auch and Moellering (2010) also suggest that even MNCs that lack the social resources required to enact or bring change to local organizational fields may exercise agency internally in order to limit the negative effects of an unfavorable organizational field. Lastly, Kwok and Tadesse (2006) find that the volume of foreign direct investment reduces the prevalence of corruption in host countries.

The work on MNCs and practice variation within organizational fields has also started to identify the motivations for MNCs to deviate from the norm. For example, Tsui-Auch and Moellering (2010) suggest that the perceived vulnerability associated with weak institutions in the host country is an important predictor of MNCs' efforts to build social resources that are subsequently used to change the local organizational field. Similarly, Spencer and Gomez (2011) speculate that MNCs may not engage in bribery although this is the norm in a particular host country because they are headquartered and thus socialized in countries in which such practices are not common. However, they find that even such country of origin effects do not protect MNCs from host country institutional pressures to engage in bribery. In fact, US-MNCs are still engaging in bribery despite the introduction of the Foreign Corrupt Practices Act in 1977. For example, the US Securities and Exchange Commission (SEC) reports that in 2012 ten companies or top executives have been prosecuted for bribery overseas (SEC, 2014). A recent study by Cui and Jiang (2012) also shows that ownership structures play an important role in explaining MNC responses to external institutional pressures. Specifically, they show that state-owned enterprises are more motivated to conform to host country institutional pressures as they are suspect to particularly strict scrutiny by host-country institutions. The majority of studies have thus ascribed heterogeneous responses to factors external to the MNC.

2.3 Agency Theory and the Behavioral Agency Model

This study draws on BAM to examine how business risks and their potential for exposing the CEO to personal wealth loss are likely to influence the CEO's response to institutional pressures. BAM has been introduced by Wiseman and Gomez-Mejia (1998) to address some shortcomings that have limited the explanatory power of existing theory. Specifically, the BAM has replaced agency theory's assumption of a managerial agent that is risk-averse with the assumption that the agent is loss averse. However, BAM also shares a number of assumptions with traditional agency-based models. Therefore, this study first briefly reviews the literature on agency theory before proceeding to introducing BAM.

2.3.1 Agency Theory

Agency theory is grounded in the work by Jensen and Meckling (1976), among others (see also Fama, 1980; Fama & Jensen, 1983), on the principal-agent contract and the costs resulting from the separation of ownership and control. These costs – defined as agency costs – include opportunity costs, bonding costs, and monitoring costs (Jensen & Meckling, 1976: 308) and arise from the *goal conflict* between principals and agents. That is, it is assumed that the interests of agents and principals are not always completely congruent and *self-interested* agents – i.e., agents that prioritize the pursuit of personal gains over the interests of principals – may thus take actions that are not in the best interest of the principal. Based on insights from managerial economics, the goal conflict between agents and principals has generally been depicted as the result of differences in risk preferences between agents and principals (Jensen & Meckling, 1976). Differences in risk preferences between agents and principals arise from the fact that while the agent's income and employment risk is tied to one firm, principals are generally able to diversify their investments and are thus not affected by the failure of individual firms to the extent the CEO heading a failing firm is. Agents are thus assumed to be risk-averse (reducing firm exposure to risk thereby accepting lower returns) while principals are risk neutral.

The goal conflict between agents and principals is only problematic in combination with *information asymmetries*. That is, self-interested agents are able to maximize their personal gains because of their privileged position within the firm and information asymmetries between agents and principals. Generally, information asymmetries exist "when one party to an exchange has information that the other does not" (Sanders & Carpenter, 2003: 163). In the context of the principal-agent relationship, information asymmetries exist because agents possess or have access to superior knowledge about their task environment which gives them an information advantage over the principal (Eisenhardt, 1989; Jensen & Meckling, 1976). As a result, it is very difficult for principals to observe and understand the choices of the agent and self-interested agents may thus feel that they can opportunistically exploit their advantageous position without the intervention of the principal. Moreover, principals also face difficulties to evaluate the effort the agent is investing into achieving the best outcome for the principal due to these information asymmetries (Tosi & Gomez-Mejia, 1989). As such, the information asymmetry between agents and principals creates the potential for moral hazard and adverse selection problems.

In addition, agency theorists also assume bounded rationality by both principals and agents. The concept of *bounded rationality* suggests that in decision situations characterized by uncertainty the rationality of principals and agents is bounded by the information to which they attend, the time constraints they face in this particular decision situation, and their cognitive limitations (Simon, 1955; Cyert & March, 1963). As such, bounded rationality explains why principals and agents lack the computational ability to predict ex ante all contingencies that would have to be covered by the contract in order to minimize the possibility of opportunistic behavior (Williamson, 1979, 1981). It is also very costly to distinguish between opportunistic and non-opportunistic types ex ante (Williamson, 1981) and contracts between principal and agents thus often remain incomplete (Jensen & Meckling, 1976). Moreover, rationally bounded agents engage in selective search processes which generate imperfect information in that neither all potential alternatives nor outcomes are perfectly known. Therefore, agents potentially make suboptimal choices because they base their decisions on incomplete information and are also unable to effectively process all information available to them (Sanders & Carpenter, 2003). As a result of the three factors noted here, i.e. goal conflict, information asymmetries and bounded rationality, there is the potential for moral hazard (Fama & Jensen, 1983; Jensen & Meckling, 1976).

The issue of moral hazard is relevant post contract and refers to the possibility that agents may take actions that would have not been chosen by the principals, thereby potentially forgoing higher returns. The costs incurred by the principal as a result of moral hazard are best described as opportunity costs. In this regard, opportunity costs arise from the fact that while risk-averse agents seek to limit the exposure of the firm to risk in order to protect their employment, principals prefer that agents make choices that maximize firm returns (Hoskisson, Hitt & Hill, 1991). These choices, however, are inherently more risky than those preferred by risk-averse agents. Therefore, the “risk differential” (Beatty & Zajac, 1994) between agents and principals creates a moral hazard problem. Subsequent work has thus been particularly interested in the design of governance mechanisms that alter the risk preferences of agents to align them with the interests of principals (e.g., Sanders & Hambrick, 2007; Tosi & Gomez-Mejia, 1989). Importantly, opportunity costs associated with moral hazard may go undetected by the principal as agents generally have an information advantage which makes it difficult for principals to observe the behavior of agents.

One option to address the moral hazard problem arising from the risk differential described above and to align the agent’s personal interest closer with those of principals is to closely monitor the actions of the agent. Monitoring includes not only the measurement or observation of the behavior of the agent but also control mechanisms such as budget control or clauses that are added to the agent’s employment contract (Jensen & Meckling, 1976). However, these monitoring efforts also come at a cost due to the resources necessary to effectively monitor the agent and thus further increase agency costs. Similarly, agents may seek to ensure principals that they act in their interest by accepting contractual arrangements that restrict their discretion such as guarantees that the financial accounts are regularly audited. While these restrictions reduce an agent's ability to opportunistically exploit his or her position, they also create costs for principals as agents may be unable to fully exploit some particularly profitable opportunities due to their limited decision-making power. Another possibility to align the risk preference of agents with the interests of principals is through the design of the compensation contract (Rajgopal & Shevlin, 2002; Sanders, 2001).

The distinct stream in the literature focusing on the identification of situations in which the goal conflict between agents and principals is likely to occur and describing the governance mechanisms that align the interests of agents and principals has been labeled as positivist agency theory (Eisenhardt, 1989). A particularly important mechanism that potentially helps to align the interests of agents and principals is the compensation contract. That is, it has been suggested that the risk preference of agents and principals can be aligned by designing the compensation contract in a way that rewards greater risk taking (Rajgopal & Shevlin, 2002; Sanders, 2001; Tosi & Gomez-Mejia, 1989). The compensation contract allows principals to include elements that explicitly reward risk taking. Specifically, Jensen and Meckling (1976) suggest that the inclusion of pay elements that increase firm ownership of the agent decrease opportunistic behavior by the agent. In this regard, an efficient mean to minimize the agency costs arising from the principal-agent problem is to implement specific incentive alignment mechanisms such as awarding stock options to CEOs (Eisenhardt, 1989, Tosi & Gomez-Mejia, 1989). Stock options allow CEOs to buy a pre-determined number of shares during a specific time period to a set price. Yet, there is no obligation to exercise options if the actual share price is lower than the pre-determined price during the specified time period which limits the downside potential of this payment instrument (Devers *et al*., 2008).

Taken together, agency theory is based on four key assumptions. First, information asymmetries between agents and principals make it difficult for principals to efficiently observe the behavior of agents, thereby creating the potential for moral hazard. Second, agents are self-interested and act opportunistically when given the opportunity to exploit their position to their advantage. Third, agency theorists assume bounded rationality by both principals and agents. Fourth, the separation of ownership and management potentially creates a goal conflict between principals and agents. This goal conflict has generally been depicted as the risk differential between agents and principals. While agency theory has prompted substantial research across disciplines (for reviews see Eisenhardt, 1989; Gomez-Mejia & Wiseman, 1997), it has also faced some criticism. In particular, the assumption of a managerial agent that is risk-averse – always preferring less risk to more – has been challenged in the literature (e.g., Chatterjee & Hambrick, 2007, 2011; Wiseman & Gomez-Mejia, 1998). This criticism is particularly important as the assumption of risk aversion has regularly been used to explain the goal conflict between agents and principals. Thus, the assumption of risk aversion is central to the agency theory literature. The assumption of risk aversion has been considered to be problematic for at least two reasons (Wiseman & Gomez-Mejia, 1998).

First, the narrow assumption of risk-averse agents that always prefer lower risk over high risk options neglects the possibility of risk seeking behavior. In fact, agency theorists tend to ignore non-risk-averse preferences by agents that are not externally induced through compensation contracts as they are seen as special cases (Jensen & Meckling, 1976: 338-340). However, there exists a large body of knowledge outside the agency theory literature that has demonstrated that managerial agents may in fact be risk seeking. For example, the conceptualization of agents' risk preferences that dominates the agency literature does not take into account that risk is a perceptual phenomenon

(Carpenter *et al.*, 2003). That is, the risk associated with strategic choices is not objectively given in that all CEOs always view a focal strategic option as highly risky and vice versa. Rather, risk is dependent on a decision-maker's subjective assessment of the decision situation (Sitkin & Pablo, 1992). In this regard, a particular important factor influencing an agent's subjective assessment of risk is his or her confidence. Agents that have great confidence in their own abilities are more risk seeking than their less self-confident counterparts (Chatterjee & Hambrick, 2007; Hayward & Hambrick, 1997). Similarly, MacCrimmon and Wehrung (1990) demonstrate that agents' risk taking propensity is determined by personal, financial, and professional characteristic.

Second, agency theory has generally assumed that agents have stable risk preferences (Shavell, 1979). As such, it is assumed that the risk preference of agents is stable in that they are always risk-averse. Therefore, externally induced risk seeking behavior is only observable over the period of the compensation contract. This view, however, is inconsistent with behavioral decision making research indicating that agents risk preferences is dependent on whether they frame a decision situation as a potential opportunity or threat (Kahneman & Tversky, 1979; Wiseman & Catanach, 1997). Similarly, research associated with the upper echelons theory also suggests that the risk preferences of agents such as CEOs are not stable. Specifically, upper echelon theorists argue that the risk preference of CEOs is dependent on their firm tenure (e.g., Bantel & Jackson, 1989; Hambrick & Mason, 1984; Miller, 1991) or age (Barker & Mueller, 2002; Grimm & Smith, 1991; Hambrick & Mason, 1984). For example, Hambrick and Fukutomi (1991) introduce a theoretical framework that focuses on the dynamics of the CEO's tenure in office. They suggest that risk taking is dependent on the CEO's commitment to a paradigm, task knowledge, information diversity, task interest and power. As such, both theoretical perspectives offer a more dynamic view on agents risk preferences than agency theory.

2.3.2 Behavioral Agency Model

Drawing on insights from behavioral decision research, BAM offers an alternative perspective on the principal-agent relationship (Wiseman & Gomez-Mejia, 1998). In particular, BAM replaced agency theory's assumption of a managerial agent that is always risk-averse with the assumption of an agent that is loss-averse. This is derived prospect theory's concept of loss aversion, based on the insight that decision-makers will avoid decisions under uncertainty that threaten the loss of existing (or endowed) wealth (Kahneman & Tversky, 1979). From this perspective, the risk preference of loss-averse decision-makers depends on the potential outcome of alternative decisions in relation to a predetermined reference point. Specifically, loss aversion suggests that the value function in relation to the reference point is steeper in the direction of losses than for equivalently sized gains (Tversky & Kahneman, 1991). The risk preference of individuals is thus dependent on whether potential outcomes are either framed as potential gains (positively framed problems) or potential losses (negatively framed problems). Positively framed problems are those that generally promise acceptable expected returns. Negatively framed problems, on the other hand, are those that generally promise unacceptable returns.

If individuals positively frame a problem (i.e., they expect generally acceptable returns), they tend to forgo the possibility of additional gains if pursuing the gain is associated with a possible loss relative to their reference point. In contrast, if individuals frame a problem negatively (i.e., they expect a loss or have already experienced a loss), they tend to make choices that are intended to completely recoup the losses instead of minimizing the loss even though this may encompass taking additional risks (Tversky & Kahneman, 1991). Said differently, behavioral decision making models suggest that loss-averse decision-makers will avoid risk when faced with a certain gain (risk aversion), yet they will take additional risk in order to avoid impending losses to endowed wealth (risk seeking). Thus, loss aversion suggests that risk preference orderings – the preference of less risk to more risk – will depend upon whether the agent anticipates a gain or loss. As such, the concept of loss aversion suggests that agents are loss avoiders rather than wealth maximizers (Kahneman & Tversky, 1979).

BAM incorporates the role of loss aversion into predictions of agent risk taking through applying the concept of risk bearing. At a basic level, risk bearing – defined as the "perceived threat to agent wealth" (Wiseman & Gomez-Mejia, 1998: 136) – is created by design through the agent's employment risk. This is because an agent's income and employment risk is tied to one firm and thus cannot be diversified away (Werner, Tosi & Gomez-Mejia, 2005). A more nuanced source of risk bearing, however, is the compensation contract that is designed to transfer risk from the principal to the agent. For example, risk bearing is created when CEOs accumulate value in their stock options, meaning they have more to lose from greater risk taking (Beatty & Zajac, 1994). This argument is based on the "instant endowment" hypothesis by Thaler and Johnson (1990) stating that the protection of wealth "in hand" is more important than the pursuit of additional wealth. CEOs are likely to endow the forms of wealth that are considered assured including wealth that has just been received or wealth that is fully expected in the future which adds to their risk bearing such as stock options or cash compensation (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007; Martin *et al.*, 2013; Wiseman & Gomez-Mejia, 1998).

The CEO typically has an equity component to their compensation, often consisting of a mix of stock and options. Equity grants to the managerial agent have been argued by traditional agency theorists to align the interests of the managerial agent and shareholder-principal, reducing the agency costs associated with opportunistic agent behavior (Jensen & Meckling, 1976). Stock options granted to CEOs are usually in the form of call options, providing a right to buy shares in the firm at some point in the future at a pre-determined exercise price (usually the firm's stock price at the time of grant), which provides CEOs with the incentive to increase the firm's share price because it will increase their equity wealth (Jensen & Meckling, 1976). Stock options are typically unexercisable – that is, the CEO cannot take ownership and realize their value – for the first four to five years that they are owned by the CEO (Martin *et al.*, 2013). CEOs are argued to endow the accumulated value of their unexercisable options, based on the assumption that this value will be realized (Larraza-Kintana *et al.*, 2007). This is based on the logic that once they have accumulated value in these options, they will attempt to preserve that value. Exercisable options are vested, meaning that the CEO owns these options and therefore is likely to have endowed their value in their estimations of personal wealth.

Previous behavioral agency research has focused upon predicting strategic risk taking by the CEO. Specifically, previous studies have been interested in the relationship between CEO compensation and firm risk taking. As noted above, the value of stock option grants are normally endowed by the CEO based on the assumption that this value will be realized (Larraza-Kintana *et al.*, 2007). However, the value of options fluctuates with the underlying stock price and the CEO's wealth can thus be negatively affected by a decline in the value of the stock. Said differently, current wealth in the form of the accumulated value of stock options is exposed to loss (Wiseman & Gomez-Mejia, 1998). CEOs are likely to frame the accumulated value of stock options as a choice among potential gains although this gain is still vulnerable to fluctuations in the value of the underlying stock should the CEO make risky choices (Devers *et al.*, 2008; Larraza-

Kintana *et al.*, 2007; Martin *et al.*, 2013). Combined with the assumption that CEOs are loss averse – meaning that they will avoid risk when faced with a certain gain (risk aversion) –, BAM predicts that the CEO's current wealth is negatively related to firm strategic risk taking.

Although empirical evidence testing these arguments is scarce, a number of studies have provided empirical support for BAM's prediction that agent risk bearing associated with equity wealth and compensation structure negatively influences CEO risk taking (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007; Martin *et al.*, 2013; Zhang, Bartol, Smith, Pfarrer & Khanin, 2008). Most notably, Larraza-Kintana *et al.* (2007) have found empirical evidence for the core argument put forward by BAM that positively valued stock options are negatively associated with firm risk taking (see also Martin *et al.*, 2013). That is, support has been found for the idea that the CEO's risk preference influences a firm's strategic choices. Moreover, the findings reported in earlier studies are also consistent with the prediction of BAM. For example, Lambert, Lanen and Larcker (1989) have also observed that the inclusion of stock options in CEOs compensation contracts results in reduced corporate dividends. Similarly, Holthausen, Larcker and Sloan (1995) demonstrate in their study that CEOs have an incentive to manipulate corporate earnings in order to protect their annual bonuses (see also Zhang *et al.*, 2008). As such, there is strong evidence suggesting that as risk bearing in form of the accumulated value of their perceived wealth increases, the less risk CEOs are willing to take in order to protect their wealth.

Although the majority of behavioral agency research has explored the relationship between CEO compensation and firm risk taking, BAM has also been extended in other directions. Specifically, while BAM was developed to explain agents' risk preferences in publicly listed firms, subsequent work has extended BAM to contexts in which the boundaries between ownership and control are more fluent such as family firms (Lim, Lubatkin & Wiseman, 2010). From this perspective, the interest of agents in family firms is likely to differ substantially from their counterparts in large, publicly traded firms. That is, while agents of publicly traded firms seek to protect their personal wealth, principals in family firms are likely to pursue interests that extent beyond personal wealth such as the preservation of the family business for future generations (Morck & Yeung, 2003; see also Berrone *et al.*, 2010). As a result, it has been predicted that the long-term orientation of family business owners and agents results in reduced risk taking (Le Breton-Miller & Miller, 2006; Lim *et al.*, 2010). In support of this argument, Chrisman and Patel (2012) have found that family firms – regardless of their size – generally refrain from substantial high risk investments. However, in cases where the long-term orientation of family businesses is disturbed as a result of intra-family rivalries, family firms are likely to be risk seeking due to the diminishing benefits associated with the long-term orientation of the family firm (Lim *et al.*, 2010).

A related stream of research has also explored the relationship between socioeconomic wealth in family firms and firm risk taking. In addition to the long-term orientation of family firms, these studies have argued that family firm CEOs also seek to preserve socioeconomic wealth such as legitimacy derived from conformity to environmental expectations (Berrone *et al.*, 2010) even if it means to expose the firm to greater business risks (Berrone & Gomez-Mejia, 2009; Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson & Monyano-Fuentes, 2007). That is, family firms are willing to take greater risks when the implementation of these high risk practices is socially expected and adoption thus protects socioeconomic wealth (Berrone *et al.*, 2010). While this view contradicts the argument that the long-term orientation of family business owners and managers results in reduced risk taking, Chrisman and Patel (2012) have reconciled these competing predictions by introducing the notion of myopic loss aversion. That is, they have argued that while family firms are generally more risk-averse, family firm managers are willing to take greater risks if the survival of the family is threatened. BAM researchers have thus acknowledged that risk taking behavior may be contextual. Missing, however, from this theory is the role of institutional norms and isomorphic pressure upon the CEO in their decision-making.

2.3.3 Agency Theory and the Social Context

As noted previously, although agency theory has been applied extensively in the strategy literature (for reviews see Eisenhardt, 1989; Gomez-Mejia & Wiseman, 1997), it has also been subject to criticism. While one important shortcoming of agency theory, i.e. the assumption of risk aversion, has already been discussed, more recent work has also criticized agency theory for its emphasis on efficiency and rationality. For example, Lubatkin, Lane, Collin and Very argue that agency theory is “under-socialized in the sense that each of the firm’s stakeholders act in ways that are assumed to be economically rational and only minimally influenced by relationships and social context” (2007: 46). This criticism echoes other work that has also suggested that the principal-agent relationship is institutionally embedded (e.g., Wiseman *et al.*, 2012). Specifically, it has been argued that the norms and values prevalent in the organizational field influence the degree to which agents act opportunistically or determine the governance mechanisms that are used to control agent behavior (Aguilera & Jackson, 2003). Said differently, both the design and effectiveness of internal corporate governance mechanisms that are used to control the principal-agent relationship are bounded by the norms and values prevalent in the organizational field. As a result of this debate, the explanatory power of agency theory in contexts outside the US has been questioned (Judge, 2009; Kang & Yanadori, 2011; Lubatkin, Lane, Collin & Very, 2007).

Moreover, while agency theorists have acknowledged that the assumption of risk aversion is too narrow and limits the application of the theory (Wiseman & Gomez-Mejia, 1998), most agency scholars continue to attach objective risk properties to strategic choices such as strategic investments including R&D investments, capital expenditures, and long-term debt (e.g., Devers *et al.*, 2008; Sanders & Hambrick, 2007). That is, it is assumed that all decision-makers, regardless of their own risk preference, will always evaluate the riskiness of a strategic choice along the same objective criteria. For example, it has been generally assumed that strategic investments such as R&D investments, capital expenditures, or capital expenditures are high risk investments (e.g., Devers *et al.*, 2008; Martin *et al.*, 2013; Sanders & Hambrick, 2007). This, however, also presents an under-socialized view of risk-taking. For example, although a strategic choice such R&D investments may be objectively relatively more risky compared to avoiding such investments, the institutional environment may allow a firm selecting such a high risk strategy to share the risk with other firms embedded in the same organizational field. In other words, a focal firm may be able to "share the blame" with other firms which have adopted the same strategy (Scharfstein & Stein, 1990). In fact, avoiding objectively high-risk R&D investments may lead to the loss of legitimacy and may thus be relatively more risky if such a decision is inconsistent with the expectations of external legitimacy providers (Barreto & Baden-Fuller, 2006).

Addressing these concerns, more recent research has started to systematically combine insights from agency and neoinstitutional theory. The integration of neoinstitutional and agency theory is particularly useful as it "bridges the gap between under-socialized agency theory approaches and over-socialized views of institutional theory" (Aguilera & Jackson, 2003: 448). Given the effect of the organizational field on the design of corporate governance mechanisms, there has been particularly strong interest in the comparison of corporate governance across countries (e.g., Buck & Shahrim, 2005; van Essen, Heugens, Otten & van Oosterhout, 2012). Differences in corporate governance practices have often been credited to diverging developments of common and civil law across countries (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 2000). In contrast, Aguilera and Jackson (2003) suggest that the differences in corporate governance practices are historically contingent. Consistent with the work on institutional logics, they argue that country-specific institutional domains significantly contributed to these differences. Empirically, a study by Lubatkin *et al.* (2005) supports this idea by demonstrating that that the degree to which agents behave opportunistically and the governance mechanisms employed to reduce this behavior vary significantly across countries (see also Buck & Shahrim, 2005; Chahine & Tohme, 2009; van Essen *et al.*, 2012). Similarly, the effectiveness of corporate governance mechanisms also differs across countries depending on the strength and nature of institutional pressures emanating from the organizational field (Aguilera, Filatotchev, Gospel & Jackson, 2008).

Alternatively, there has also been some interest in exploring the degree to which organizational fields may influence CEO compensation. Most notably, Berrone and Gomez-Mejia (2009) have argued that the adoption of practices that are legitimate in a specific organizational field have a positive effect on executive compensation (see also Yeung *et al.*, 2011). The underlying logic here is that the legitimacy of a practice reduces the information asymmetry between agents and principals. That is, principals are able to access additional information about the taken-for-granted character of the practice to evaluate whether the actions taken by the agent are in their best interest (Sanders & Carpenter, 2003). This information is not costly to obtain as it merely reflects the shared meaning system prevalent in the organizational field and therefore does not increase agency costs (Berrone & Gomez-Mejia, 2009). In a similar vein, Berrone *et al.* (2010)

demonstrate that family-controlled firms exhibit better environmental performance than their nonfamily-controlled competitors. This shows that agents adopt practices that are consistent with the preferences of their principals if they are socially accepted. As such, there is some fragmented evidence suggesting that the organizational field may reduce the goal conflict between agents and principals (see also Chung & Luo, 2008a).

CHAPTER 3
HYPOTHESES DEVELOPMENT

3. Hypotheses Development

3.1 Practice Variation and the Role of Individuals

Although research on practice variation within organizational fields has gained significant traction in the past decade, most of this work has focused on the firm-level. This may not be surprising as neoinstitutional theorists in general have tended to downplay the importance of individual decision-makers such as CEOs (Hambrick & Mason, 1984). This may be credited to the overall deterministic nature inherent in neoinstitutional implying that organizational decision-makers are conditioned by the institutional forces they are facing. As a result, relatively little is known about the role of individuals in institutional processes. Nonetheless, there are a number of studies that have acknowledged the important role organizational decision-makers potentially play in explaining practice variation within organizational fields (e.g., Davis, 1991; DiMaggio, 1988; Kraatz & Moore, 2002; Lamberg & Pajunen, 2010). Some prominent examples include the studies by Maguire *et al.* (2004) showing that individuals play an important role in institutional change by bridging the gap between diverse stakeholders and accessing dispersed sets of resources necessary to implement change and Creed *et al.* (2010) suggesting that identity work at the individual-level is an important enabling factor of change (see also Lok, 2010). Similarly, Rodrigues and Child find that "managerial intentionality persists even under a highly institutionalized regime" (2003: 2158).

There are two strands of research that offer an important point of departure for the present study. First, there has been an increasing interest in the microfoundations of neoinstitutional theory. Crilly *et al.*, for instance, have argued that "identifying the microfoundations of response to institutional pressures is crucial to explain firm heterogeneity" (2012: 1444; see also George *et al.*, 2006; Powell *et al.*, 2010; Reay *et al.*, 2006). Similarly, Oliver has suggested that "institutional theory can accommodate interest-seeking, active behavior" (1991: 149) and Elsbach and Sutton conclude that "individuals may influence when and how institutional norms are adhered to and when and how such norms are violated" (1992: 732). The majority of work within this emerging stream of research has taken a managerial cognition perspective. For example, George *et al.* (2006) argue that managers' perceived threat or opportunity to firm resources determines their response to institutional pressure. Similarly, Crilly *et al.* (2012) have found that the implementation of institutionalized practices is dependent on a common understanding among managers about the underlying meaning of the practice. As another example, Leputre and Valente (2012) suggest that individual decision-makers cognitive framing of alternative logics explains their conformity or resistance to dominant meaning systems. Applying their logic to the Belgian ornamental horticulture industry, they find that managers that frame the emerging VMS logic – effectiveness with minimal environmental impact - as "unrealistic future" were less likely to subsequently adopt this new logic.

The work exploring the microfoundations of firm responses to institutional pressures has been recognized as being particularly relevant to understanding the role of individuals in institutional processes. Specifically, this line of research suggests that the way managers respond to institutional pressures is dependent on their cognitive maps. Managers' cognitive maps are distilled by their personalities, values, and previous experiences (Hambrick & Mason, 1984). That is, the way managers perceive the reality and make strategic choices is dependent on their subjective interpretation of the world. For example, the socialization process of managers associated with their professional training shapes the way they frame and interpret institutional pressures and subsequently their responses to these pressures (Bercovitz & Feldman, 2008; Chung & Luo, 2008a). From this perspective, institutional pressures are not objective and firm responses to these pressures are thus not mechanic but subject to the way managers frame, interpret, and make sense of these pressures (Crilly *et al.*, 2012; George *et al.*, 2006; Julian *et al.*, 2008; Lepoutre & Valente, 2012; Marcel *et al.*, 2010; Ng *et al.*, 2009 Tilcsik, 2010). Managers' cognitive maps are also important because they enable them to better recognize opportunities for institutional change (Dokko & Gaba, 2012; Reay *et al.*, 2006; Simons & Roberts, 2008).

The work taking a managerial cognition perspective to explain practice variation within organizational fields has also made other important contributions to the literature. For example, analogous to the work on institutional entrepreneurship, Reay *et al.* (2006) have also drawn attention to the structural position of managers that determines their ability to introduce new practices into mature organizational fields (see also Bruton *et al.*, 2009; McInerney, 2008). Consistent with their logic that the embeddedness of managers is critical to understanding their role in institutional processes, they show that in particular middle-managers used their institutional embeddedness to their advantage in accomplishing institutional change. Similarly, Rojas (2010) has developed a process-model of institutional change indicating that individuals have to enact their personal networks in order to consolidate and acquire power required to implement change (see also Kim *et al.*, 2007). Moreover, the notion of managerial cognition offers a more nuanced theoretical explanation of the diffusion process that replaces some of the simplistic assumptions dominating the neoinstitutional literature. For example, the argument that the observed impact of adoption on others facilitates the diffusion of institutionalized practices is based on the assumption that the meaning of this information adoption information is objectively given (Haunschild & Miner, 1997). However, from a managerial cognition perspective the interpretation of this information is most likely subject to the individual framing of the manager (Jonsson, 2009).

The notion of managerial cognition in the context of practice variation is also important because previous work has emphasized the possibility that institutional change and resistance begins at the individual cognitive level (Oliver & Montgomery, 2008). As such, the work noted above offers a more nuanced perspective on the notion of cognition compared to Scott (2001) who suggests that actors within an organizational field generally share a cognitive understanding of the taken-for-granted character of existing meaning systems. The managerial cognition approach to explaining practice variation within organizational fields, however, is not without limitations. Most importantly, Bercovitz and Feldman (2008) find that individuals are more responsive to local pressures although these pressures may be inconsistent with their professional training. This finding offers some insights into potential boundary conditions of managerial cognition related explanations of practice variation. That is, while the socialization of managers may indeed affect their perception and interpretation of institutional pressures, they may still conform to local pressures although they are inconsistent with their training in order to avoid behavior that is considered to be inappropriate in the specific context.

A second stream of research has focused more explicitly on the role of self-interested managerial agents in institutional processes. Although this line of work is still in its infancy, there is fragmented evidence demonstrating that self-interested managerial agents play an important role in institutional processes. Most notably, Westphal and Zajac (1994, 2001) have demonstrated that managerial agency is an important antecedent of decoupling. In particular, they have found that powerful CEOs are inclined to decouple formal policies from practice if the policy is inconsistent with their own interests. Moreover, Fiss and Zajac (2004) have suggested that powerful CEOs' educational and functional background as well as their age will influence their response to institutional pressures. Similarly, Sanders and Tuschke (2007) also argue that the educational background of CEOs determines the degree to which their assessment of the taken-for-granted character of institutionally contested practices is culturally biased (see also Palmer *et al.*, 1993). As another example, Kennedy and Fiss (2009) have demonstrated that CEOs that are motivated to achieve social and economic gains are particularly likely to implement institutionalized practices. In contrast, CEOs that are motivated by avoiding social and economic losses have been found to be more likely to only ceremonially adopt institutionalized practices without actually implementing them.

Although this line of work has primarily taken a sociopolitical approach to explain variation in the implementation of institutionalized strategies focusing on the notion of CEO power, it has created a space for managerial agency within the neoinstitutional theory literature. Specifically, this work has suggested that while CEOs may be subject to external institutional pressures, their self-interest may determine the degree to which they are willing to implement these institutionalized strategies (Westphal & Zajac, 1994; 2001). Extending this logic, another plausible explanation for the adoption of nonisomorphic firm strategies which has received relatively little attention emanates from behavioral strategy. As noted previously, BAM suggests that CEOs are generally loss averse and they are thus less likely to take risks as their risk bearing – i.e., wealth-at-risk of loss – increases. Previous work has used this theoretical framework to explain strategic risk taking of the CEO and firm (e.g., Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007; Martin *et al.*, 2013). Neoinstitutional theorists, however, have been slow to integrate the insights about the role of managerial agency and opportunistic risk management by the CEO into their analysis of practice variation within organizational fields.

In sum, the work noted above is important in the context of the present study for two reasons. First, it has demonstrated that firm responses to institutional pressures are enacted by organizational decision-makers in a position of power and not by an abstract firm as a faceless entity (Berrone *et al.*, 2010). This is important as neoinstitutional theorists have tended to assume that organizational decision-makers such as CEOs have relatively little discretion to make strategic choices (Finkelstein & Boyd, 1998). The work noted above, however, has demonstrated that individuals including CEOs play a central role in institutional processes as they enact firm responses to institutional pressures. Second, the studies described above also suggest that managerial self-interest is part of the DNA of top executives (Jensen & Meckling, 1976), meaning that their actions are often driven by the pursuit of personal goals (Kennedy & Fiss, 2009; Westphal & Zajac, 1994; 2001). As such, the focus on self-interested CEOs offers an alternative approach to addressing the "paradox of embedded agency" (Seo & Creed, 2002). The fact that self-interest itself is institutionally embedded allows for the possibility that CEOs are willing to outgrow the taken-for-granted nature of institutionalized practices when personal incentives are high. Therefore, this study argues that strong incentives such as accumulated option wealth and cash compensation prompts CEOs to conduct a more thorough analysis of strategic options, which in turn causes relevant decision-makers to question the efficiency benefits of strategies that have become taken-for-granted.

3.2 Neoinstitutional Theory and the Role of Legitimacy Risk

The majority of neoinstitutional theory researchers have not explicitly considered the role of risk in their analyses of the interaction of firms with their organizational fields. A notable exception includes the work of George *et al.* (2006). In their theoretical contribution, they have explicitly discussed the levels of risk associated with isomorphic vis-à-vis nonisomorphic strategies. In particular, they have argued that isomorphic strategies are generally less risky than nonisomorphic strategies and firm responses to institutional pressures are thus dependent on whether environmental shifts are viewed as potential opportunities for gaining or threats to organizational legitimacy. From this perspective, organizational decision-makers that perceive an environmental situation as posing a threat to organizational resources – as opposed to a potential gain – are more likely to adopt a nonisomorphic strategy. However, while George *et al.* (2006) have made a significant contribution by systematically introducing the notion of risk to the neoinstitutional theory literature, the idea that isomorphic strategies are relatively less risky than nonisomorphic strategies is not entirely new. In fact, the majority of work within the neoinstitutional literature has long implicitly relied on the narrow assumption that isomorphic strategies are relatively less risky than nonisomorphic strategies (e.g., Bolton, 1993; Davis, 1991). Yet, it is important to note neoinstitutional theorists have focused on one specific form of risk that is predicted to explain why firms generally conform to the norms prevalent in the organizational field.

Specifically, the neoinstitutional literature has largely relied on the argument that firms choose isomorphic strategies in order to reduce *legitimacy risks* – defined as the risk of legitimacy losses to firms. Isomorphic strategies which are adopted in response to institutional pressures are argued to reduce legitimacy risk because they signal to the organizational field that a firm is prudent to the social expectations prevalent in a specific social context. Firms adopting isomorphic strategies reduce legitimacy risks by reenacting the meaning system prevalent in their organizational fields, thereby ensuring that their processes and structures are aligned with the expectations of the organizational field (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Therefore, it can be assumed that it is safest for firms to adopt strategies that are supported by important cognitive, normative, and regulatory institutions (Scott, 2001). For example, Deephouse (1996) reports that firms adopting isomorphic strategies are evaluated more favorably by regulatory institutions and the general public. Similarly, Kostova and Zaheer (1999) suggest that MNCs may mitigate the risk of facing public criticism regarding their employee practices by mimicking the behavior of other MNCs. As another example, Staw and Epstein (2000) find empirical evidence supporting their argument that the adoption of popular management techniques has a positive effect on corporate reputation (see also Philippe & Durand, 2011).

In contrast, firms adopting nonisomorphic strategies run the risk of losing support of important cognitive, normative, and regulatory institutions (Scott, 2001). By choosing nonisomorphic strategies, these firms fail to establish a cognitive relationship between their strategic actions and the expectations of the organizational field. In fact, nonisomorphic strategies are likely to be heavily scrutinized by other actors within the organizational field as they are inconsistent with widely held belief systems (Clegg, 2010). As a result, these firms fail to gain or preserve legitimacy which in turn can even threaten long-term firm survival (DiMaggio & Powell, 1983; Gaur & Lu, 2007). Specifically, firms adopting nonisomorphic strategies are likely to find it more difficult to gain access to critical scarce resources compared to their more legitimate counterparts (D'Aunno, Sutton & Price, 1991). Similarly, Lounsbury and Glynn (2001) argue that entrepreneurs which are unable to tell stories that link their new ventures and personal motivations to the widely held beliefs in their organizational field face difficulties to access capital required to sustain the business. Moreover, it has also been argued that cognitive, normative, and regulatory institutions are generally more likely to evaluate the strategic decisions of CEOs less favorably if they are inconsistent with the actions of others (Brandenburger & Polak, 1996; Gentzkow & Shapiro, 2006). Firms may thus only select nonisomorphic strategies if they already face a potential loss of resources (George *et al.*, 2006).

Therefore, it can be concluded that isomorphic strategies are in fact relatively less risky than nonisomorphic strategies (George *et al.*, 2006) and firms have thus generally an incentive to select strategies that reduce legitimacy risk. Consistent with this observation, the strategy literature drawing on neoinstitutional theory has also emphasized the influence of legitimacy risk upon decision-making (Lieberman & Asaba, 2006). Moreover, these arguments also hold in the context of the choice of cross-border governance mode. In fact, it seems plausible to suggest that the legitimacy risk of adopting a nonisomorphic strategy is particularly relevant in the context of cross-border governance mode choices. For example, Gaur and Lu (2007) demonstrate that survival rates of MNC subsidiaries are lower as regulatory and normative distance increases. This is because MNCs face difficulties to adopt legitimate governance strategies as regulatory and normative distance between home and host countries increases. Similarly, a number of studies have also shown that MNCs reduce legitimacy risk when operating in foreign markets by adopting entry modes that are best suited to deal with the idiosyncrasies of the local organizational field (e.g., Brouthers, 2002; Meyer *et al.*, 2009). For instance, MNCs entering host countries with restrictive regulatory environments are more likely to use alliances as entry mode compared to wholly owned subsidiaries because they may benefit from legitimacy spillover effects of their local partners (Yiu & Makino, 2002).

In sum, the neoinstitutional literature has underlined the influence of legitimacy risk upon decision-making at the firm-level. Specifically, previous work has demonstrated that firms seek to adopt strategies that allow them to gain or protect legitimacy (Lieberman & Asaba, 2006). This study now analyses the influence of legitimacy risks upon CEO decision-making by examining the personal risks for the CEO associated with the choice of cross-border governance mode from a neoinstitutional perspective. The focus on the cross-border governance mode is warranted because previous work has also consistently argued that ownership decisions may be a means of conformity to foreign organizational fields (Guillén, 2002; Meyer *et al.*, 2009; Lu, 2002). Moreover, by exploring the role of CEOs in institutional processes in the context of cross-border governance mode choices this study also directly responds to concerns that international business strategy scholars have not fully exploited their potential to be at the forefront of the work exploring the notion of agency within neoinstitutional theory (Kostova *et al.*, 2008). As such, this work coincides with an increasing interest in explaining practice variation among MNCs.

3.2.1 Legitimacy Risk and the Adoption of Cross-border Acquisitions as Governance Mode

The baseline hypothesis is directly derived from neoinstitutional theory and focuses on the effect of legitimacy risks on the choice between cross-border alliances and acquisitions. In particular, this study argues that the legitimacy risks associated with the adoption of nonisomorphic strategies is particularly relevant in the context of cross-border governance mode choices and CEOs thus have an incentive to adopt isomorphic governance strategies (e.g., Guillén, 2002; Li *et al.*, 2007; Lu, 2002; Xia *et al.*, 2008; Yiu & Makino, 2002). Moreover, this study contends that CEOs are particularly susceptible to the conformity pressures associated with the behavior of other firms. This is due to the fact that the legitimacy risks associated with the adoption of a nonisomorphic strategy potentially threatens their reputation and consequently their future earnings potential.

Previous work has suggested that legitimacy risks as a result of choosing nonisomorphic strategies are likely to be particularly high when operating in foreign markets for two reasons. First, CEOs expanding into foreign markets are generally confronted with unusual uncertainty (Guillen, 2002; Henisz & Delios, 2001; Xia *et al.*, 2008). While the sources of uncertainty are diverse, it is likely that CEOs making decisions relating to their firms' operations in foreign markets find it particularly difficult to select a legitimate governance strategy due to their unfamiliarity with the characteristics of the local organizational field (Yiu & Makino, 2002). The reason for this is that each national context features its own set of socially-constructed institutional domains, meaning that the requirements for gaining legitimacy differ across host countries (Kostova & Zaheer, 1999; Roth & Kostova, 2003). As such, CEOs generally face the challenge of making sense of the local organizational field (Kostova & Roth, 2002) which may inhibit their ability to adopt governance strategies that conform to the expectations of external legitimacy providers (Estrin *et al*., 2009). In this situation, the adoption of nonisomorphic governance strategies – i.e. adopting a governance strategy that is inconsistent with the behavior of other MNCs – creates legitimacy risks. This is due to the fact that CEOs that deviate from the norm are particularly prone to adopting governance modes that are illegitimate in the local context because of their difficulties to predict the legitimacy consequences of their governance strategies.

Second, CEOs face not only the challenge to make sense of the local organizational field but their firms are also confronted with the liability of foreignness (Henisz & Delios, 2001; Xu & Shenkar, 2002). The liability of foreignness can best be described as the cost disadvantage of foreign firms compared to local firms (Zaheer, 1995). Such cost disadvantages are the consequence of information asymmetries that arise from the fact that local institutions are likely to have less information about foreign MNCs than they have about domestic firms. As a result, foreign MNCs – and their CEOs – face generally greater challenges to obtain legitimacy because local institutions are inclined to discount the legitimacy of foreign market entrants due to these information asymmetries (Kostova & Zaheer, 1999). These information asymmetries, however, can be reduced if local legitimacy-providers perceive the behavior of a focal MNC and its CEO to be consistent with the behavior of other foreign MNCs (Li *et al*., 2007). In contrast, if a focal MNC deviates from the entry patterns of other MNCs, it is likely that these information asymmetries are further intensified resulting in an even greater discount to the legitimacy of the MNC and its CEO (Guillen, 2002). That is, legitimacy risks associated with the pursuit of nonisomorphic strategies are high because local legitimacy providers are more likely to perceive the decisions CEOs make on behalf of their firm as being illegitimate if it is inconsistent with the behavior of similar firms.

While previous work has already suggested that MNCs can alleviate these legitimacy risks by adopting isomorphic governance strategies (e.g., Guillén, 2002; Li *et al.*, 2007; Xia *et al.*, 2008; Yiu & Makino, 2002), these studies have paid relatively little attention to the incentives CEOs have to adopt isomorphic governance strategies. In this regard, this study argues that CEOs are particularly susceptible to the institutional pressures associated with the behavior of other firms as the choice of a nonisomorphic governance strategy exposes the MNC to greater legitimacy risks which can also directly negatively affect the CEO. In fact, Staw and Epstein (2000) demonstrate that firms that had adopted popular management techniques were not only portrayed in the business press as being more innovative but were also considered to have higher-quality management. Similarly, Westphal and Zajac (1998) also suggest that CEOs built their credibility by adopting strategies that help legitimating the firm. Moreover, external legitimacy providers such as investment analysts are likely to evaluate the actions of a CEO less favorably if they are inconsistent with the action of others (Brandenburger & Polak, 1996; Gentzkow & Shapiro, 2006), meaning that CEOs can suffer from reputation damages as the result of the adoption of less legitimate strategies. Legitimacy risks and CEO reputation damages are thus closely related, as the failure to gain or preserve legitimacy can negatively affect the CEO's reputation.

Reputation damages associated with the failure to gain or preserve legitimacy are problematic for the CEO for several reasons. Most importantly, such reputation damages negatively affect the CEO's future earnings potential. That is, reputation damages adversely affect CEO human capital which is defined as the value of an individual's future earnings (Agrawal & Mandelker, 1987; Buchholtz *et al.*, 2003). This is because the CEO's reputation serves as an important indicator of his or her competence. Generally, it has been argued that boards of directors and other external stakeholders often face difficulties to evaluate the CEO's marginal contributions to firm performance (Hayward, Rindova & Pollock, 2004; Wade, Porac, Pollock & Graffin, 2006). As a result, boards of directors can find it challenging to justify CEOs' salaries. In this situation, CEOs' reputation is critical as it serves as a relatively unbiased source of information about their talent and competence (Wade *et al.*, 2006). Consistent with the Matthew effect which suggests that high-status actors receive higher rewards for performing similar or identical tasks compared to their low-status peers (Merton, 1968), it is thus expected that CEOs' reputation is an important factor when boards of directors determine their compensation. For example, Wade *et al.* (2006) found that while CEO certification is no predictor of firm performance, it is positively related to CEO compensation.

It can thus be argued that the loss of reputation as a result of choosing a nonisomorphic strategy negatively affect a CEO's future earnings potential. This argument is consistent with some more recent work that has also suggested that CEOs adopting isomorphic strategies may be rewarded in the form of an increase of compensation (Berrone & Gomez-Mejia, 2009; Staw & Epstein, 2000; Yeung *et al.*, 2011). Similar to the logic noted above, these studies have argued that the adoption of popular strategies sends cues about the talent of the CEO to the board of directors. For example, Peng argues that "when there is so much ambiguity in attributing the causes of organizational outcomes such as performance, outside observers often rely on positively valued behavior as a signal in making their judgment of a firm's management" (2004:

458). Similarly, Yeung *et al.* (2011) theorize about the possibility that CEOs may opportunistically adopt isomorphic strategies in order to gain credibility with internal stakeholders, thereby further strengthening their position within the firm. In contrast, the failure to recognize the importance of the symbolic value of isomorphic strategies potentially jeopardizes the position of the CEO (Staw & Epstein, 2000). Thus, in addition to the loss of future earnings potential due to reputation damages, CEOs may also lose prospective earnings because of their failure to recognize the potential personal benefits from adopting isomorphic strategies.

It is thus clear that the adoption of nonisomorphic strategies directly negatively affects the CEO in the form of loss of future earnings potential. In this regard, it is important to emphasize that the loss of future earnings potential is inextricably interwoven with the legitimacy risks associated with nonisomorphic strategies. That is, both reputation damages and the failure to send cues about their talent to internal and external stakeholders is a result of the legitimacy risks associated with nonisomorphic strategies. Said differently, CEOs of firms that fail to gain or preserve legitimacy are more likely to suffer from reputation damages and are consequently perceived to be less talented. In turn, these reputation damages are likely to negatively influence a CEO's future earnings potential. Importantly, in a globalized labor market, CEO reputation will matter both in host and home markets (Johnston, 1991), meaning that legitimacy losses of their firm in foreign markets will also matter to the CEO. In support of this argument, it has been shown that CEOs will also suffer from reputation damages if their firms engage in illegitimate practices in foreign markets such as bribery (Fadiman, 1986). Therefore, CEOs have an incentive to minimize legitimacy risks when selecting a cross-border governance mode by following the behavior of other MNCs. That is, despite the elevated legitimacy risk (of their firm) and therefore potential loss of future earnings potential for the CEO when selecting a cross-border market governance mode, these risks can be mitigated through observing the adoption of governance strategies by other MNCs.

Prior studies have suggested that the behavior of other MNCs is likely to be instrumental in defining the legitimate course of action in foreign markets (e.g., Guillén, 2002; Li *et al.*, 2007; Lu, 2002; Xia *et al.*, 2008; Yiu & Makino, 2002). Specifically, CEOs adopting isomorphic strategies are mitigating the risk of being perceived as illegitimate by utilizing the information stemming from the behavior of other MNCs such as the frequent adoption of governance strategies (Lieberman & Asaba, 2006). From this perspective, the frequent adoption of governance strategies by other MNCs creates additional information on which CEOs can draw in order to reduce their perceived uncertainty (Guillén, 2002; Lu, 2002; Xia *et al.*, 2008; Yiu & Makino, 2002). This idea is consistent with the argument that strong institutional pressures such as the behavior of other firms potentially facilitate a learning process whereby legitimate behaviors are reinforced by the organizational field (Ensley & Hmieleski, 2005; Garud *et al.*, 2002; Gunawan & Rose, 2014; Levitt & Nass, 1989). This form of learning has been referred to as "assessment learning" and describes a process whereby CEOs base their assessment of the feasibility of adopting a particular strategy on the behavior of others (Belderbos *et al.*, 2011). CEOs that are confronted with ambiguity and uncertainty are thus able to model their behavior on other MNCs, thereby importing clarity from the local organizational field.

Moreover, the aforementioned information asymmetries (liability of foreignness) can also be reduced if local legitimacy providers perceive the behavior of a focal MNC to be consistent with the behavior of other foreign MNCs (Li *et al.*, 2007). Said differently, CEOs adopting governance strategies that are consistent with previous entry patterns of other MNCs can also benefit from legitimacy spillover effects. At a basic level, previous work has argued that the legitimacy of a specific population increases with the number of entries into this population (Hannan & Freeman, 1977). Similarly, neoinstitutional theorists have also theorized about the possibility that legitimacy may spillover from a population of firms to new market entrants. Specifically, it has been noted that the legitimacy of a focal firm may be influenced by “the legitimacy of other organizational entities with which the unit is cognitively related” (Kostova & Zaheer, 1999: 75). In order to achieve cognitive relatedness with other MNCs that are already operating in a specific host country and thus benefiting from such legitimacy spillover effects, it is likely that focal firms need to be perceived to be similar along various dimensions. A particular important dimension is the adopted governance strategy as it allows firms to establish a direct cognitive link to the behavior of other MNCs (Kuilman & Li, 2009; Li *et al.*, 2009). Therefore, CEOs seeking to benefit from the legitimacy of already established MNCs are expected to adopt governance strategies that are similar to those previously adopted by these MNCs.

The ideas presented here have received strong empirical support. For example, previous findings suggest that CEOs’ efforts to reduce legitimacy risks explain the rate of entry (e.g., Guillen, 2002), choice of location (Belderbos et al., 2011; Henisz & Delios, 2001), new venture international entry (Fernhaber & Li, 2010), and timing of foreign entry (Delios *et al.*, 2008). More importantly, however, prior studies have also found that CEOs regularly adopt governance strategies that are taken-for-granted within specific local organizational fields (e.g., Ang & Michailova, 2008; Lu, 2002; Yiu & Makino, 2002). Following this work, this study therefore suggests that the conformance pressures ensuing from the frequent adoption of acquisitions as governance strategy upon the CEO is likely to influence their choice of governance mode. Specifically, this study argues that legitimacy risks associated with the selection of nonisomorphic strategies compared to isomorphic strategies are particularly high in the context of cross-border governance choices due to CEOs unfamiliarity with the expectations of local organizational fields and liability of foreignness. In order to reduce these legitimacy risks and to protect their reputation and consequently their future earnings potential, CEOs are thus expected to select governance strategies that are consistent with the behavior of other MNCs. In particular, CEOs are likely to prefer cross-border acquisitions over cross-border alliances as the number of cross-border acquisitions conducted by other foreign MNCs increases:

> *Hypothesis 1: There is a positive relationship between the number of acquisitions that have been previously adopted by foreign firms in a particular host country and industry and the CEO's subsequent adoption of acquisitions as governance mode under similar conditions over the alternative of forming an alliance.*

3.3 Neoinstitutional Theory, Isomorphic Strategies and Business Risk

As noted above, neoinstitutional theorists have focused on legitimacy risks when predicting the choice between isomorphic and nonisomorphic strategies. In addition, this study has argued that these legitimacy risks also negatively affect CEOs in the form of reputation damages and subsequently a loss of future earnings potential. As a result, CEOs generally have an incentive to adopt isomorphic strategies in order to reduce legitimacy risks and avoid the negative personal consequences associated with the choice of nonisomorphic strategies. Based on these arguments, this study has argued that CEOs seek to reduce legitimacy risks by adopting a governance mode that has been frequently adopted by other MNCs. However, it is important to acknowledge that previous work has largely ignored that the adoption of isomorphic strategies, albeit reducing legitimacy risks, may also create *business risks*. Business risks refer to risks that are directly related to the financial outcomes of strategic decisions such as the choice of governance mode. In fact, Meyer and Rowan have already recognized that "conformity to institutionalized rules often conflicts sharply with efficiency criteria and, conversely, to coordinate and control activity in order to promote efficiency undermines an organization's ceremonial conformity and sacrifices its support and legitimacy" (1977: 340-341). Similarly, DiMaggio and Powell (1983) have suggested that isomorphic strategies are primarily designed to gain or protect legitimacy and may thus not necessarily be aligned with achieving organizational efficiency. The adoption of isomorphic strategies can create business risks for at least four reasons.

First, the adoption of isomorphic strategies can have a negative impact on firm performance as firms pursuing isomorphic strategies may forgo opportunities that are more lucrative. That is, firms that select isomorphic strategies are likely to incur opportunity costs that arise from these firms neglecting more profitable opportunities (Heugens & Lander, 2009). For example, Barreto and Baden-Fuller argue that "firms engage in mimetic behaviour even when this means taking what would previously have been considered 'bad' decisions" (2006: 1563). In the context of the choice between cross-border alliances and acquisitions, firms may adopt acquisitions because they are the norm although alliances may offer a greater potential to exploit their firm-specific advantages in the local market. Such opportunity costs may also arise from the fact that firms that pursue isomorphic strategies may be unable to recognize market opportunities or exploit new technologies. Moreover, these firms may also miss opportunities to effectively combine and leverage existing firm-specific resources (Dess & Shaw, 2001). The negligence of such more lucrative opportunities is likely to negatively affect overall firm performance. Supporting these arguments, Barreto and Baden-Fuller (2006) have found that legitimacy-based branching location choice results in reduced firm profitability which is partially due to the opening of branches in unattractive locations in response to institutional pressures.

Second, firms adopting isomorphic strategies also face difficulties differentiating themselves from others (Deephouse, 1999). That is, by selecting isomorphic strategies firms tend to focus more on matching the behaviour of others rather than differentiating themselves from their rivals. For example, firms may focus on products or services similar to those previously introduced by their rivals (Semadeni & Anderson, 2010). Similarly, firms also frequently enter similar product markets (Rhee, Kim & Han, 2006) or geographical markets (Belderbos *et al.*, 2011; Gimeno, Hoskisson, Beal & Wan, 2005) in response to institutional pressures which also results in strategic homogeneity. As such, it is unlikely that these firms are able to develop a sustainable competitive advantage that would result in superior returns (Lee, Smith, Grimm & Schomburg, 2000; Lieberman & Montgomery, 1988). This is because a sustainable competitive advantage is normally created through the combination of firm-specific resources in unique ways which subsequently allows these firms to differentiate themselves from their rivals (Barney, 1991). In fact, customers may conclude that firms adopting isomorphic strategies lack superior or unique capabilities and thus mimic the strategic choices of their rivals (Miller, Le Breton-Miller & Lester, 2013). The focus on conformity rather than innovation and thus the failure to create a sustainable competitive advantage is most likely reflected in the financial performance of these firms. Thus, isomorphic strategies can also create business risks because of the lack of differentiation.

Third, the pursuit of isomorphic strategies in response to institutional pressures also creates business risks because firms may adopt strategies that are incompatible with current organizational structures. For example, Westphal *et al.* (1997) found that firms adopting total quality management in order to conform to the expectations of the organization field trade efficiency benefits for legitimacy benefits. The authors attributed the negative effect on efficiency to the fact that firms often lacked the structures and processes that would have been required to efficiently implement total quality management. While firms may respond to these tensions with decoupling (Fiss & Zajac, 2004; Westphal & Zajac, 1994, 2001), this approach is also problematic because firms ceremonially adopting formal policies without actually implementing them can face various forms of resistance from the workforce (Boiral, 2007; MacLean & Behnam, 2010). The resistance of the work force may not only foster cynicism within the firm (Ashforth & Gibbs, 1990), but also eventually negatively affect overall firm performance. Similarly, internal stakeholders such as employees may also be resistant to isomorphic change which may result in fragmented organizational structures and processes (Slack & Hinings, 1994). Therefore, the adoption of isomorphic strategies can create business risks for firms that lack the organizational structure necessary to effectively implement the strategy.

Fourth, conformity may also create risks to firms' financial performance if the strategy adopted in response to institutional pressures itself is inherently high risk. Specifically, while the adoption of cross-border acquisitions may enhance the legitimacy of the firm if this has become the industry norm, it is also well known from the strategy literature that acquisitions often fail (King, Dalton, Daily & Covin, 2004) and are therefore considered to be high risk ventures (Sanders, 2001). Cross-border acquisitions in particular are often associated with a relatively high degree of risk. For example, Capron and Guillen (2009) have suggested that post-acquisition integration is particularly difficult in cross-border acquisitions due to differences in national governance institutions. Similarly, Bjoerkman, Stahl and Varra (2007) argue that the transfer of capabilities in cross-border acquisitions is more difficult due to cultural differences between home and host countries. Moreover, firms adopting cross-border acquisitions in response to institutional pressures not only expose the firm to the high business risks associated with this strategy, but also face the challenge of having to choose from a limited set of acquisition target firms. This may result in the acquisition of inferior target firms or a target firm with resources and capabilities that are incompatible with those of the acquirer (McNamara, Haleblian & Dykes, 2008).

The evidence presented here lends strong support to the argument that the pursuit of isomorphic strategies, albeit reducing legitimacy risks, also creates firm-specific business risks. Neoinstitutional theorists, however, have largely ignored the possibility that business risks may have an adverse impact on the propensity of CEOs to conform to institutional pressures. This has been justified with the argument that firms – and their CEOs – are generally willing to trade efficiency benefits for legitimacy benefits in order to be able to subsequently reap the benefits of being perceived as legitimate (Barreto & Baden-Fuller, 2006; Westphal *et al.*, 1997). These benefits, as mentioned above, are primarily related to the "right to do business" (Lieberman & Asaba, 2006), long-term survival (DiMaggio & Powell, 1983), and the CEO's future earnings potential (Berrone & Gomez-Mejia, 2009). Thus, neoinstitutional theory suggests that the business risks created by the pursuit of isomorphic strategies can be neglected as long as the benefits in the form legitimacy gains outweigh the additional business risks to the firm (Barreto & Baden-Fuller, 2006; Westphal *et al.*, 1997). In other words, the legitimacy risks associated with the pursuit of nonisomorphic strategies is seen as more problematic than the business risks stemming from isomorphic strategies as the benefits of avoiding legitimacy risks offset the costs of business risks. However, this view is problematic as it neglects the *personal risks* that are created for the self-interested managerial agent – including the CEO – as a result of the pursuit of isomorphic strategies.

In this regard, this study identifies two dimensions of personal risks that are relevant in institutional processes. As noted above, legitimacy risks can create personal risks for CEOs in the form of reputation damages and subsequently the loss of future earnings potential. However, the adoption of isomorphic strategies can also create personal risks for the CEO. Specifically, as the CEO's personal wealth is significantly influenced by the performance of one firm (Jensen & Meckling, 1976), personal risks can also be the result of business risks associated with the adoption of isomorphic strategies that may adversely affect firm performance and thus the CEO's personal wealth. Previous work associated with BAM has suggested that self-interested CEOs will choose strategies that are most likely to protect their current wealth (Wiseman & Gomez-Mejia, 1998). In particular, it has been argued that CEOs will prefer strategies that minimize business risk when their risk bearing - wealth-at-risk of loss – is high (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007; Martin *et al.*, 2013). Yet, the effect of agency and opportunistic risk management by the CEO is yet to be considered in analyzing the effect of the organizational field and social expectations on firm strategy. Considering that the pursuit of isomorphic strategies creates substantial business risks that may threaten the CEO's firm-specific current wealth, it is plausible to argue that the sensitivity to the institutional pressures that generally incentivize firms and their CEOs to adopt isomorphic strategies is contingent upon the risk bearing of the self-interested CEO.

While there is compelling evidence pointing towards the asymmetric relationship between legitimacy and business risk, it is important to note that it could be argued that stock markets that are particularly relevant when considering the business risk associated with the strategic choices of publicly listed firms are also likely to reward legitimacy gains, meaning that there could be less divergence between legitimacy and business risk as suggested in this study. Yet, this argument would only hold if (1) stock markets would be inclined to reward conformity due to its symbolic value rather than internal efficiency or (2) conformity simultaneously leads to efficiency gains. Both of these conditions are unlikely to reflect the reality, though. While there may be instances in which stock markets reward conformity in the short term, in the long term the stock price is expected to reflect relevant firm-specific information such as internal efficiency and overall performance that determines the value of the firm (Abolafia & Kilduff, 1988; Camerer, 1998). Similarly, the evidence presented above also shows that legitimacy risks are decoupled from business risks in that the reduction of legitimacy risks results in an increase rather than a reduction of business risks. Empirically, there is also support showing that stock markets are unlikely to reward conformity but are cognizant of the business risk associated with isomorphic strategies. Most notably, McNamara *et al.* (2008) show that firms conforming to the acquisition behavior of their peers are punished by stock markets in the form of sinking stock prices. Similarly, Lee *et al.* (2000) find that firms conforming to the innovations of their competitors report lower abnormal returns than innovators. These studies do support the assumption that stock markets do not reward the adoption of institutionalized practices; rather, the reduction of legitimacy risk on average comes at the expense of an increase in business risk.

3.3.1 Business Risks, Institutional Pressures and Risk Bearing

3.3.1.1 CEO Stock Options

Above, this study has described how CEOs will be influenced by institutional pressures when selecting cross-border governance modes, such that they are likely to acquire (as a choice of governance strategy) as opposed to form alliances, yet only if acquisitions are seen as the more legitimate strategy. However, this study has also argued that isomorphic strategies can lead to firm-specific business risks. While neoinstitutional researchers generally neglect these business risks as they suggest that the benefits in the form of legitimacy gains outweigh the additional business risks to the firm (Barreto & Baden-Fuller, 2006; Westphal *et al.*, 1997), this study argues that these business risks are relevant to the degree to which these risks pose a threat to CEOs' current wealth. Specifically, drawing on BAM, this study suggests that loss-averse CEOs will be less susceptible to the conformity pressures associated with the behavior of other firms as risk bearing - wealth-at-risk of loss - increases. This logic is based on two central theoretical insights on which BAM is built (Wiseman & Gomez-Mejia, 1998). First, loss-averse CEOs are more concerned with the protection of present wealth rather than the maximization of future wealth. Second, risk-averse CEOs will react sensitive to business risks associated with the adoption of isomorphic strategies to the degree to which these business risks negatively influence their firm-specific wealth.

As described previously, BAM has adopted the assumption that loss-averse CEOs prioritize the protection of present wealth over the maximization of future wealth (Wiseman & Gomez-Mejia, 1998). Therefore, risk-averse CEOs are expected to react more sensitive to threats to current wealth than to threats to future wealth. In the context of this study, this observation is important as it indicates that the potential benefits associated with the reduction of legitimacy risks – which lie in the future (Berrone & Gomez-Mejia, 2009; DiMaggio & Powell, 1983; Gaur & Lu, 2007) – may not sufficiently compensate loss-averse CEOs for the immediate business risk they are facing. This further suggests that it is important to clearly distinguish between the effects of legitimacy risks on CEOs' wealth and the effects of business risks on CEOs' wealth. This study has argued that the adoption of nonisomorphic strategies can create legitimacy risks which potentially threaten CEOs' future earnings potential. As CEOs' future earnings potential refers to wealth that may only materialize in the future (Agrawal & Mandelker, 1987; Buchholtz *et al.*, 2003), legitimacy risks can thus primarily be seen as a threat to future wealth. Business risks, on the other hand, pose a threat to CEOs' current wealth, particularly if current wealth is directly related to the performance of the firm (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007). This is because business risks often have an immediate adverse effect on firm performance (McNamara *et al.*, 2008).

Bearing in mind that risk-averse CEOs are more sensitive to threats to current wealth than to threats to future wealth (Wiseman & Gomez-Mejia, 1998), they are thus expected to be willing to take greater legitimacy risks (threat to future wealth) if it allows them to minimize business risks (threat to current wealth). In other words, risk-averse CEOs will be less sensitive to the conformity pressures associated with the behavior of other firms even though this might result in the adoption of a less legitimate cross-border governance mode. Yet, this argument is only relevant if the business risks associated with the adoption of isomorphic strategies in fact create a threat to CEOs' current wealth. This is only the case for CEOs with high levels of risk bearing as the magnitude to which business risks threaten CEOs' current firm-specific wealth depends on their risk bearing – or their wealth-at-risk of loss (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007; Martin *et al.*, 2013; Wiseman & Gomez-Mejia, 1998). For example, the value of their stock options is directly related to the fluctuations in the underlying stock price, meaning business risks negatively affecting stock prices pose an immediate threat only to CEOs with high accumulated option wealth (Beatty & Zajac, 1994). It follows that CEOs with high risk bearing (high accumulated option wealth) are likely to be less sensitive to the conformity pressures associated with the behavior of other firms when selecting a cross-border governance mode.

On the contrary, CEOs with relatively low levels of risk bearing (low accumulated option wealth) have no incentive to reduce business risks as these risks pose no immediate threat to their current wealth (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007; Martin *et al.*, 2013; Wiseman & Gomez-Mejia, 1998). As a result, CEOs with relatively low levels of risk bearing are likely to actively seek to maximize their future wealth and thus have a particularly strong incentive to reduce legitimacy risks. In other words, the magnitude to which business risks threaten their current personal wealth is low and they have thus no reason to prioritize the protection of current wealth over the maximization of future wealth. That is, these CEOs are more than compensated for the higher business risks they are taking by adopting an isomorphic strategy with the reduction in legitimacy risks and the protection of their reputation and thus their future earnings potential (Berrone *et al.*, 2010). Therefore, CEOs with low levels of risk bearing are expected to be particularly sensitive to the conformance pressures associated with the governance choices of other MNCs. This argument is consistent with BAM suggesting that CEOs with low levels of risk bearing are more likely to take greater business risks – such as adopting isomorphic strategies – as they have less to lose from failed risk taking (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007; Martin *et al.*, 2013; Wiseman & Gomez-Mejia, 1998).

Consistent with prior research examining the risk bearing associated with stock options (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007), this study tests the effect of risk bearing on CEOs responses to institutional pressures using the value of both exercisable and unexercisable stock options. The difference between exercisable and unexercisable options is that the CEO cannot take ownership and realize the value of unexercisable options while exercisable options are vested and the CEO can thus realize their value at any time. Stock options are typically unexercisable for the first four to five years that they are owned by the CEO (Martin *et al.*, 2013). In addition to the value of their exercisable options, CEOs are argued to also endow the accumulated value of their unexercisable options, based on the assumption that this value will be realized (Larraza-

Kintana *et al.*, 2007). This argument is based on the "instant endowment" hypothesis by Thaler and Johnson (1990) suggesting that CEOs are likely to endow the forms of wealth that are considered assured including wealth that has just been received or wealth that is fully expected in the future which adds to their risk bearing including both exercisable and unexercisable options (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007; Martin *et al.*, 2013; Wiseman & Gomez-Mejia, 1998). Therefore, this study contends that both the value of CEOs' exercisable and nonexercisable stock options influences their responses to institutional pressures in the way described above.

In sum, this study argues that the loss-averse CEO's risk bearing is likely to attenuate institutional pressure upon the CEO to choose to acquire, as opposed to form an alliance with a local partner. This is because making a cross-border acquisition in response to institutional pressures will be perceived by the CEO as posing a greater threat of loss to their current firm-specific wealth, such as the accumulated value of exercisable and nonexercisable stock options previously awarded to the CEO. Moreover, loss-averse CEOs are expected to place greater emphasis on the protection of current wealth than the maximization of future wealth. Therefore, as the value of exercisable and nonexercisable option increases, CEOs are more likely to engage in a kind of cost-benefit analysis of the economic consequences of strategic conformity. That is, the accumulated value of exercisable and nonexercisable option creates strong incentives for CEOs to conduct a more thorough analysis of strategic options, which in turn causes relevant decision-makers to question the efficiency benefits of strategies that have become taken-for-granted. In support of this logic, Kennedy and Fiss (2009) have shown that economic gains become indeed an additional consideration when making adoption decisions. Therefore, this study argues that the accumulated value of exercisable and nonexercisable stock options will negatively moderate the positive relationship between the number of acquisitions that have been previously adopted by other MNCs and the choice of cross-border acquisitions as governance mode by the focal MNC.

Hypothesis 2a: Risk bearing inherent to the CEO's exercisable stock options will attenuate the positive relationship between the number of acquisitions previously adopted by foreign firms and the subsequent adoption of acquisitions as governance mode.

Hypothesis 2b: Risk bearing inherent to the CEO's unexercisable stock options will attenuate the positive relationship between the number of acquisitions previously adopted by foreign firms and the subsequent adoption of acquisitions as governance mode.

3.3.1.1 CEO Cash Compensation

So far, the arguments put forward in this study have focused on stock options as an important incentive alignment mechanisms. However, it is important to also consider the effect basic pay elements all CEOs receive have on their risk bearing and subsequently on their responses to institutional pressures. The most basic pay element is cash compensation. CEOs generally receive their cash compensation regardless of current performance levels as it does not fluctuate with the underlying stock of the organization. As such, cash compensation can be seen as an essential pay element which CEOs expect to receive at a predetermined date over the period they are under contract at the firm (Larraza-Kintana *et al.*, 2007). While CEOs generally receive their cash compensation regardless of current performance levels, it is likely that future cash income is considered to be assured and therefore endowed by the CEO (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007). That is, CEOs are likely to consider cash compensation as part of their current wealth. As such, cash compensation contributes to the CEO's estimate of their risk bearing or wealth-at-risk of loss if they were to lose his or her job due to failed risk taking (Wiseman & Gomez-Mejia, 1998). That is, as CEOs cash compensation increases so does their risk bearing and they are thus likely to adopt strategies that protect their cash compensation (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007).

Thus, using a similar logic to that described previously, this study argues that additional CEO risk bearing associated with cash compensation reduces the effect of social expectations upon CEO decision-making, thereby reducing the likelihood that the CEO will chose an isomorphic strategy. Said differently, as CEO risk bearing due to their cash compensation increases, CEOs will react more sensitive to the business risk associated with the pursuit of isomorphic strategies than to the legitimacy risk related to the adoption of nonisomorphic strategies. Specifically, while making a cross-border acquisition may be consistent with the behavior of other firms and thus help to reduce legitimacy risk, it also exposes the firm and CEOs firm-specific wealth, such as their cash compensation, to greater business risks. In order to reduce these business risks and to protect their firm-specific wealth, CEOs with high risk bearing – as a result of their cash compensation – will thus be less likely to conform to the acquisition behavior of other firms.

Hypothesis 3: The positive relationship between the number of acquisitions that have been previously adopted by foreign firms and the subsequent adoption of acquisitions as opposed to alliance formation as governance mode will be weaker as the CEO's risk bearing associated with cash compensation increases.

CHAPTER 4
METHODOLOGY

4. Methodology

4.1 Research Context

In order to examine the influence of the accumulated value of exercisable and unexercisable options and cash compensation on CEOs responses to the conformity pressures associated with the behavior of other firms, this study focuses on the adoption of cross-border alliances and acquisitions as foreign market governance mode. Alliances refer to a formalized partnership whereby the resources, capabilities, and core competencies of two or more independent firms are voluntarily combined to achieve mutual strategic goals (Shi, Sun & Prescott, 2012). As such, strategic alliances are seen as an intermediate hybrid governance form that lies between markets and hierarchy (Williamson, 1985) and firms thus enter into alliances when transaction costs do not warrant market exchange but are also not sufficiently high to justify vertical integration (Hennart, 1988, 1991). Acquisitions can be described as the purchase of existing firms, resulting in full or partial control for the acquiring firm (Shimizu, Hitt, Vaidyanath & Pisano, 2004). Generally, firms engage in acquisitions to increase market power, efficiency (synergies such as economies of scale or scope) and market discipline, or to facilitate resource redeployment (Haleblian *et al.*, 2009).

The focus on cross-border alliances and acquisitions as foreign market governance mode is warranted because they are two particularly prominent cross-border governance strategies as they offer relatively quick access to foreign markets (Vanhaverbeke, Duysters & Noorderhaven, 2002; Yin & Shanley, 2008). More importantly, however, the diffusion of alliances and acquisitions has also prominently featured in studies examining isomorphic market entries. In this regard, neoinstitutional researchers have consistently argued that the choice of governance mode is a means of conformity to institutional pressures emanating from the local organizational field (Estrin *et al.*, 2009; Guillen, 2002;

Lu, 2002; Meyer *et al.*, 2009; Yiu & Makino, 2002). For example, Garcia-Pont and Nohria (2002) examine the dynamics of alliance formation from a mimetic isomorphism perspective, Haunschild (1993) investigates the impact of director interlocks on corporate acquisition activity, and Xia *et al.* (2008) describe the rise and decline of joint ventures and merger and acquisitions as foreign market entry strategies. Considering that organizational decision-makers are likely to view cross-border alliances and acquisitions as alternative governance modes and the importance of the choice of governance mode as a means of conformity, it seems justified to explore the effect of CEO compensation on their responses to institutional pressures in the context of the choice between cross-border alliances and acquisitions.

4.2 Sample

The sample consists of cross-border alliances and acquisitions that have been announced by MNCs headquartered in the US in the period 1993-2010. The dataset has been limited to mergers and acquisitions announced by MNCs in the manufacturing sector because previous work has demonstrated that the underlying theoretical rationales for the choice of governance mode differ between service and manufacturing firms (Brouthers & Brouthers, 2003). In particular, service products differ from manufactured goods in several ways: "intangibility, simultaneous production and consumption, heterogeneity of service offering, and perishability" (Song, di Benedetto & Zhao, 1999: 814). Thus, manufacturing and service firms face different challenges when setting up operations abroad. Most importantly, service firms generally have to commit fewer resources to foreign operations than manufacturing firms and the risks associated with foreign market entry thus differ to the risk taken by manufacturing firms when entering foreign markets (Ekeledo & Sivakumar, 2004). Also, manufacturing firms may react more sensitive to the lack of protection of intellectual property in the host country as most of their products are the result of significant upfront investments in R&D. On the other hand, service firms find it generally difficult to protect their new services due to the nature of their offerings and may thus not be as concerned about the absence of strong patent protection (Brouthers & Brouthers, 2003; Ekeledo & Sivakumar, 2004). By focusing on the manufacturing sector, this study thus controls for such differences between manufacturing and service firms.

Data on alliances and acquisitions has been collected from the SDC Platinum database. For acquisition transactions, this study has included both complete and partial acquisitions as the adoption of a partial acquisition also signals the rejection of the competing alliance strategy (Xia *et al.*, 2008; see also Wang & Zajac, 2007). Following prior research, alliances have been limited to those including only two alliance partners (e.g., Vanhaverbeke *et al.*, 2002; Wang & Zajac, 2007). Alliance transactions in which an alliance has been set-up in multiple host countries have been duplicated in order to reflect that a decision to form an alliance in each of these countries has been made at the firm-level. Similarly, in cases where two manufacturing firms headquartered in the US have entered a foreign host country has also been duplicated because decisions about alliance formation have been made in each of these firms separately. While alliances are generally considered as non-directional, the purpose of this study was to examine the choice of governance mode by MNCs headquartered in the US and they are thus treated as being directional. Relevant data that has been collected from SDC platinum include the date of announcement, company names of acquirer and target firms or alliance partners, host country, and SIC codes of acquirer and target firms and alliance partners.

CEO compensation data has been extracted from Compustat's ExecuComp database. ExecuComp provides compensation data including executive stock options and cash compensation of up to nine (although most companies only report data for the top five top executives) top executive officers within a company from 1992 onwards. Data is primarily collected from proxy statements and annual reports. Data extracted from ExecuComp has been widely used in prior research on the relationship between CEO compensation and firm behavior (e.g., Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007; Martin *et al.*, 2013; Sanders & Hambrick, 2007). In order to determine the CEO that has served at the time of the announced alliance or acquisition, it has been validated that the date of CEO appointment was prior to the date at which the alliance or acquisition has been announced. Moreover, the date of CEO departure has also been considered to establish whether the announced alliance or acquisition has taken place during the tenure of the CEO. In cases where the date of CEO appointment or departure could not been identified or was ambiguous, the information was cross-referenced with other data sources such as newspaper articles, proxy statements, or annual reports. For the purpose of this study, data has been collected for the value of exercisable and exercisable options and cash compensation. Furthermore, data was also collected on CEO demographic data such as age, tenure, and gender.

Firm-level financial data was obtained from Compustat North America. Compustat North America covers active and inactive publicly held companies headquartered in the US and Canada and offers data based on annual reports and quarterly income statements, balance sheets, statements of cash flows, and supplemental data items. Data is available in both annual and quarterly formats and dates back to 1950. In order to identify relevant data at the firm-level, the names of the MNCs headquartered in the US announcing alliances and acquisitions have been matched with the company names in Compustat North America. It is important to note, however, that company names may have changed over time. Accounting for this possibility, changes in company names have been traced for the firms identified in the alliance and acquisition file and firm-level data has been matched accordingly. Compustat North America has also been widely used as a data source in previous studies (e.g., Berrone & Gomez-Mejia, 2009; Halelblian, McNamara, Kolev & Dykes, 2012; McNamara *et al.*, 2008; Tosi & Gomez-Mejia, 1989). Relevant data collected for this study include total assets, earnings before interest and taxes (EBIT), and research and development expenses. After accounting for missing data, the sample consists of 5,546 cross-border alliances and acquisitions.

4.3 Operationalization of Variables

4.3.1 Dependent Variable

The dependent variable in this study represents the choice between cross-border alliances or acquisitions and is thus coded as a dummy variable that takes the value of one for a cross-border acquisition and zero for a cross-border alliance.

4.3.2 Independent Variable

Consistent with previous research (e.g., Guillen, 2002; Henisz & Delios, 2001; Westphal *et al.*, 2001; Xia *et al.*, 2008), this study employs a frequency-based measurement of institutional pressures – i.e., pressure to acquire – MNCs are facing. While other forms of institutional pressures exist (DiMaggio & Powell, 1983), using a frequency-based measurement is the logical choice because it allows to directly measure the strength of institutional pressures MNCs are facing (e.g., Ang *et al.*, 2014; Greve, 2011; Rao, Greve & Davis, 2001). Indeed, George *et al.* have suggested that such measures are a suitable way to measure whether the actions initiated by decision-makers are isomorphic or nonisomorphic (2006: 361). It is also important to note that frequency-based measures are the preferred choice in the absence of outcome-based variables (Haunschild & Miner, 1997).

For the purpose of this study, the organizational field is defined at the host country industry-level. While MNCs may face fragmented organizational fields (Kostova *et al.*, 2008), previous work has demonstrated that MNCs are most likely to respond to pressures emanating from firms within the target host country industry as opposed to the behavior of all firms (Henisz & Delios, 2001; Xia *et al.*, 2008). Defining the organizational at the host country industry-level is also consistent with the theoretical arguments put forward in this study. That is, it has been argued that local legitimacy providers will evaluate the legitimacy of foreign MNCs by comparing it to similar firms; i.e., firms in the same host country industry (Xia *et al.*, 2008). Similarly, foreign MNCs are also likely to use the behavior of other MNCs that have entered the same host country industry as reference point when assessing the legitimacy of a specific governance mode. This is also consistent with the idea that proximity is an important factor regarding the strength of institutional pressures (e.g., Baum *et al.*, 2000; Greve, 2011). While it is important to acknowledge that a number of studies have also defined the organizational field at the home country industry-level, these studies have been primarily focused on location choices (e.g., Belderbos *et al.*, 2011) or timing of international expansion (e.g., Delios *et al.*, 2008) rather than the choice of governance mode (for a notable exception see Lu, 2002).

Lastly, it is most likely that institutional pressures stemming from the frequent behavior of other firms is strongest for more recent actions (Baum *et al.*, 2000). Although a number of studies have also used measures that reflect the overall prevalence of a practice, the use of a moving time-window has the advantage that it is more dynamic and more accurately reflects changes in the taken-for-granted character of specific strategic choices (Xia *et al.*, 2008). Thus, this study measures the degree of *foreign institutional pressures* MNCs are facing as the logarithm of the number count of cross-border acquisitions announced by other foreign firms in the same host country, in the same industry in a three-year period prior to the transaction. In order to calculate this variable, all cross-border acquisition transactions were extracted from the SDC Platinum database for the time period 1990-2010. These transactions were then organized according to the host country of the target firm and the announcement date. The 4-digit SIC code of the target firm was used to determine the industry of the acquisition.

4.3.3 Moderating Variables

4.3.3.1 Exercisable and Unexercisable Stock Options

The value of the CEO's exercisable and unexercisable stock options are calculated using the Execucomp database, where the number of options from each option grant is multiplied by their corresponding spread (for in-the-money options) at year end (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007). The value of exercisable and unexercisable options then represents the aggregate cash value of in-the-money options at year end (prior to 2006, the value of exercisable and unexercisable stock options is at the last day of each their firm's fiscal year as reported by the company). The moderating variables have been lagged (t-1). This is based on the logic that the CEO's endowed wealth at year end is likely to influence strategic decisions in the following year (Devers *et al.*, 2008; Larraza-Kintana *et al.*, 2007; Martin *et al.*, 2013). Following prior work (e.g., Martin *et al.*, 2013), these variables have not been scaled (see Wiseman, 2009 for a discussion about the problems of ratio measures). To address the possibility that the results are driven by firm size (although the correlations between the three compensation variables and firm size are relatively low), this study has controlled for firm size directly in the model as alternative to scaling the moderating variables (Wiseman, 2009). This study has used the logarithm of the value of exercisable and unexercisable stock options.

4.3.3.2 Cash Compensation

Cash compensation is taken as the logarithm of the CEO's cash bonus and annual base salary (both taken from Execucomp) in year t-1. Aggregating cash bonus and annual base salary into one measure reflected CEO cash compensation is consistent with previous research (Devers *et al.*, 2008). As annual base salaries exceeding one million USD are subject to punitive taxes, firms often reward their CEOs in form of higher bonuses rather than increasing their annual base salary in order to avoid tax penalties (Murphy, 1999). Moreover, previous research has also shown that cash bonuses and annual base salaries are highly correlated (Larraza-Kintana *et al.*, 2007). Therefore, it is reasonable to suggest that bonuses and annual base salary are aggregated into one measure reflecting CEO cash compensation. This study has used the logarithm of cash compensation.

4.3.4 Control Variables

This study controls for a number of variables at the CEO-, firm-, industry-, and country-level that have been shown to affect the choice between cross-border alliances and acquisitions.

4.3.4.1 CEO Tenure

Previous research has suggested that CEO position tenure is an important predictor of the choice of governance mode (e.g., Herrmann & Datta, 2002). Initially, CEOs are expected to be somewhat risk averse, meaning that they avoid risky strategies in order to protect their position (Herrmann & Datta, 2002). Moreover, newly appointed CEOs also have limited task knowledge which inhibits risk taking (Hambrick & Fukutomi, 1991). As CEO position tenure increases, they will gain task knowledge and are more comfortable to select risky strategies. Therefore, it has been suggested that CEO position tenure is positively related to the choice of full-control entry modes such as acquisitions (e.g., Herrmann & Datta, 2002). Alternative, it has also been argued that CEO tenure is in fact related to restricted information processing and cognitive rigidity (Bantel & Jackson, 1989; Miller, 1991). Subsequently, the narrow breadth of knowledge base and limited perception of the environment of longer tenured CEOs eventually results in reduced risk taking (Bantel & Jackson, 1989; Miller, 1991). Longer tenured executives are also socially well established and are thus more likely to pursue strategies that emphasize efficiency, stability and continuity (Barker & Mueller, 2002), and avoid risky decisions in order to maintain their status (Finkelstein & Hambrick, 1990).

In order to control for the effect of CEO tenure on the choice between cross-border alliances and acquisitions, CEO tenure was calculated as the difference between the date of appointment and date of alliance/acquisition announcement. While it is important to acknowledge the ambiguity in the literature regarding the relationship between CEO tenure and strategic decision-making, it can be argued that the work by Herrmann and Datta (2002) is most closely related to the present study in that both studies focus on the choice of cross-border governance mode. As such, it is expected that CEO tenure is positively related to the choice of cross-border acquisitions over cross-border alliances.

4.3.4.2 CEO Age

Previous work has also suggested that CEO age may be a predictor of the choice between cross-border alliances and acquisitions. Age has been associated with decreasing cognitive abilities including learning abilities, reasoning, and information processing (Bantel & Jackson, 1989). As a result of their limited information-processing capacities, older top executives are expected to be more inflexible or conservative and rely on strategies that have been proven to be successful in the past (Barker & Mueller, 2002;

Grimm & Smith, 1991; Hambrick & Mason, 1984; Wiersema & Bantel, 1992). They are also expected to be more risk averse because they have different priorities than younger top executives and focus on financial and career security (MacCrimmon & Wehrung, 1990; Wiersema & Bantel, 1992). Relatively younger managers, on the other hand, are more likely to challenge the status quo and actively pursue strategies that are designed to seize perceived opportunities (Grimm & Smith, 1991). As such, age can be seen as a proxy for a top executive's cognitive flexibility and risk-taking propensity (Hambrick & Mason, 1984). The international business literature has also drawn on these ideas. For example, Tihanyi, Ellstrand, Daily and Dalton (2000) argue that older managers are more likely to diversify into international markets because they are in a better position to deal with the complexity and risks associated with these strategies. Similarly, Herrmann and Datta (2006) suggest that older CEOs are reluctant to choose entry modes that entail higher risks.

CEO age was calculated as the difference between the date of birth and date of alliance/acquisition announcement and is expected to be negatively related to the choice of cross-border acquisitions over cross-border alliances.

4.3.4.3 CEO Gender

Relatively few studies have explored the effect of CEO gender on strategic decision-making. However, there is some fragmented evidence suggesting that CEO gender may also influence the choice between cross-border alliances and acquisitions. At a broad level, there is some evidence suggesting that female CEOs make less risky financing and investment choices than male CEOs (Faccio, Marchica & Mura, 2012; see also Lee & James, 2007). Similarly, Martin, Nishikawa and Williamks (2009) find that changes in capital market risk measures following the appointment of CEOs. Specifically, they report that the appointment of female CEOs results in reductions in these capital market risk measures including total risk, market risk, and firm-specific risk. This finding supports their view that shareholders view female CEOs to be relatively more risk averse than male CEOs.

CEO gender is coded as a dummy variable taking the value of one if the CEO is male, and zero if otherwise. It is expected that male CEOs are more likely to select cross-border acquisitions than their female counterparts.

4.3.4.4 Firm Size

Firm size has been predominantly used to measure firm-specific resource-based advantages. While some argue that larger firms may find it more difficult to integrate other entities in their existing operations (Erramilli & Rao, 1993) and also avoid acquisitions to avoid antitrust concerns (Hennart & Larimo, 1998), the majority of studies suggest that firm size is positively related to high control governance modes. These studies argue that larger firms have the resources required to invest in high control governance modes such as Greenfield investments or acquisitions (Filatotchev, Strange, Piesse & Lien, 2007). In contrast, smaller firms are unlikely to possess the resources that are necessary to conduct an acquisition or invest into a Greenfield plant (Hennart & Larimo, 1998). Moreover, larger firms are also more likely to be more internationally diversified and thus are more comfortable operating across borders (Tihanyi, Griffith & Russell, 2005). Indeed, there is strong empirical evidence supporting this view. These studies show that increasing firm size is positively related to the choice of high control governance modes (e.g., Brouthers & Brouthers, 2003). Others, however, have found no evidence for the effect of firm size on foreign direct investment (Chang & Rosenzweig, 2001) or entry mode choice (Brouthers, 2002; Schwens *et al.*, 2011).

Previous studies have measured firm size as the number of employees (e.g., Brouthers, 2002; Brouthers & Brouthers, 2003; Erramilli & Rao, 1993; Filatotchev *et al.*, 2007; Gatignon & Anderson, 1988; Herrmann & Datta, 2002; Schwens *et al.*, 2011), sales (Tihanyi *et al.*, 2005), or total assets (Alakent & Lee, 2010; Barkema *et al.*, 1997; Tihanyi *et al.*, 2005). In this study, firm size is measured as the logarithm of total assets in t-1. Using total assets as a proxy of firm size is justified as this measure is highly correlated with other measures of firm size including sales and number of employees (Waddock & Graves, 1997). Based on previous findings, firm size is predicted to be positively related to the choice of cross-border acquisitions over alliances.

4.3.4.5 R&D Spending

R&D spending has also prominently featured in prior studies exploring the choice between cross-border alliances and acquisitions. A major risk associated with cross-border alliances is that alliance partners may appropriate the products and technology a focal firm brings into the relationship (Gulati, 1995). That is, alliance partners may disseminate or imitate the superior firm-specific know how offered by the market entrant thereby extracting the quasi-rent to which the market entrant is entitled (Kim & Hwang, 1992). It has thus been suggested that firms facing strong competition – which increases the risk of appropriation – are more likely to internalize their operations (Pisano, 1990). Specifically, firms that have invested large amounts of resources in their product and technology development are likely to avoid alliances in order to reduce the risk of having their intellectual property appropriated by alliance partners (Brouthers & Hennart, 2007). In a similar vein, a number of studies utilizing transaction cost theory to explain the choice of governance mode have relied on measures reflecting some form of R&D spending as a proxy for asset specificity. From this perspective, transaction-specific assets are assets that have been developed internally and are valuable only in a narrow range of transactions (Anderson & Gatignon, 1986; Williamson, 1981). As asset specificity increases, intermediate governance forms and internal integration are preferred over market organization (e.g., Anderson & Gatignon, 1985; Williamson, 1981).

To control for the possibility that firms may protect their intellectual property by internalizing foreign operations, this study uses the log of R&D spending in t-1. As noted above, as R&D spending increases, firms are more likely to internalize their foreign operations meaning that they are expected to choose acquisitions over alliances.

4.3.4.6 Prior Performance

Previous research has also shown that a focal firm's prior performance can influence the choice between alliances and acquisitions (Wang & Zajac, 2007). Generally, underperforming firms are expected to form alliances in order to improve their performance (Gulati, 1995). Firms with poor performance may also prefer alliances in order to mitigate risks of new projects by sharing the costs with another firm (Gulati, 1995; Pisano, 1990). Moreover, it also possible that underperforming simply firms lack the resources required to acquire another firm and thus choose alliances when expanding abroad. In contrast, while firms with good performance may also use alliances to leverage on their prior successes (Gulati, 1995), these firms are more likely to possess the resources required to acquire firms that possess desired assets. Moreover, firms with relatively good performance are also more likely to take greater risks and thus view acquisitions as a preferred vehicle for growth (Wang & Zajac, 2007).

In order to control for the effect of prior performance on the choice between cross-border alliances and acquisitions, this study has used the return on assets (ROA) in t-1. While prior studies have measured performance using a number of alternative accounting based measures such as return on capital, return on investment or return on equity

(Chatterjee & Wernerfelt, 1991), these measures have been found to be highly correlated with ROA (Keats & Hitt, 1988). It is expected that prior performance is positively related to the choice of acquisitions over alliances.

4.3.4.7 International Experience

Numerous studies have also examined the effect of international experience on the choice between cross-border alliances and acquisitions. Most of these studies have adopted an organizational learning perspective suggesting that firms will choose higher control governance modes as their international experience increases (e.g., Arregle, Hebert & Beamish, 1996). These arguments are based on the internationalization process model (e.g., Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977) which attributes the resource commitment of MNCs to foreign operations to the interplay between learning and psychic distance. Others (e.g., Yang & Hyland, 2006) have argued that firms that have gained experience with a particular entry mode are likely to recurrently use this entry mode. This is because they have established routines and processes that become a source of future actions, thereby creating a repetitive momentum (Amburgey & Miner, 1992; Yang & Hyland, 2006). Moreover, these firms are also more likely to develop the skills and knowledge base necessary to facilitate the implementation of a specific governance mode (Barkema, Bell & Pennings, 1996). These theoretical arguments have received strong support in the literature (e.g., Guillen, 2003; Henisz & Delios, 2001; Yang & Hyland, 2006). Therefore, it is important to control for the effect of international experience on the choice between alliances and acquisitions.

This study controls for two forms of international experience; i.e., host country-specific acquisition experience and firm-specific general cross-border acquisition experience. First, this study includes a dummy variable to control for previous host country acquisition experience. It is more likely that firms that have already entered a specific host country using acquisitions as governance mode are more likely to subsequently choose acquisitions as governance mode when expanding operations in the same host country. Second, this study controls for overall cross-border acquisition experience measured as the log of completed cross-border acquisitions conducted in a five-year period prior to the focal transaction. Following the arguments outlined above, it is expected that firms that have established the routines and processes necessary to facilitate the implementation of cross-border acquisitions are more likely to subsequently selecting cross-acquisitions over cross-alliances when choosing the mode of governance.

4.3.4.8 Diversification

The relatedness of the transaction also potentially influences the choice between cross-border alliances and acquisitions. Generally, it can be assumed that a greater relatedness of the transaction – i.e., the target or partner firm operates in the same or a similar industry – is related to lower integration costs and offers greater potential for economies of scale (Coase, 1937). As a key motivation for two firms to combine their resources is related to the realization of synergies (Wang & Zajac, 2007), firms operating in related industries are likely to prefer acquisitions over alliances because of greater potential to exploit their similar resource-bases (Villalonga & McGahan, 2005; Wang & Zajac, 2007). Similarly, it can also be argued that two firms that operate in similar industries are competitors and are thus unlikely to ally with each other (Villalonga & McGahan, 2005). In these cases, knowledge sharing is most likely to happen when the other firm is vertically integrated (Oxley & Sampson, 2004). Moreover, the fact that similar firms are competing in product and factor markets also potentially creates conflicts in alliances. In order to avoid such conflicts, firms may thus prefer to acquire their competitors rather than cooperating with them (Hennart & Reddy, 1997). In contrast, in cases where firms diversity into unrelated industries, firms may prefer alliances in order to reduce the uncertainty about the unfamiliar industry environment (Villalonga & McGahan, 2005; Wang & Zajac, 2007).

In order to control for the relatedness of the transaction, this study includes a dummy variable controlling whether a focal MNC is entering a related or unrelated industry. The dummy variable is called "diversification" and is coded as one if the acquisition target firm or alliance partner firm comes from a different SIC-2 industry, and zero if otherwise. While the use of a dummy variable is consistent with other studies testing the effect of relatedness on the choice of governance mode (e.g., Villalonga & McGahan, 2005; see also Shimizu *et al.*, 2004), this measure has limitations and the use of more fine-grained measures of diversification may be more desirable. However, due to data limitations this is not possible.

4.3.4.9 Resource-based Sub-Industry

At the industry-level, the resource-intensity of the target industry can also impact on the choice between alliances and acquisitions (Gomes-Cassares, 1989; 1990). Entering resource-intensive industries is likely to be relatively more risky than entering industries that are less resource-intensive. For example, resource-intensive industries often require significant upfront investments in plants, machinery and equipment. Considering the uncertainty surrounding foreign operations (Henisz & Delios, 2001), these investments are made in an ambiguous environment and are thus seen to be high risk investments. It follows that firms entering resource-intensive industries are more likely to share these risks with local partners. In other words, firms entering resource-intensive industries are expected to choose cross-border alliances over acquisitions (Gomes-Cassares, 1990).

Following prior research (Gomes-Cassares, 1989; 1990), this study has thus included a dummy variable that controls whether the acquisition target or alliance partner firm is in one of the following 2-digit SIC industries: food and beverages (SIC 20), tobacco (SIC 21), textile mills (SIC 22), wood except furniture (SIC 24), pulp and paper (SIC 26), petroleum (SIC 29) and primary metals (SIC 33). The dummy variable is coded as one if the US manufacturing firm enters one of these SIC-2 industries, and zero if otherwise.

4.3.4.10 Regulatory Distance

More recently, regulatory distance has become an increasingly important concept in the international business strategy literature. The regulatory dimension encompasses formal and informal laws, rules and regulations (DiMaggio & Powell, 1983). As regulatory distance increases, MNCs face greater challenges to obtain legitimacy because they have difficulties to make sense of the expectations of local regulatory institutions (Delios & Beamish, 1999; Gaur & Lu, 2007). While some laws, rules and regulations are codified, the regulatory dimension also includes informal codes of conduct and issues related to civil and human rights, freedom of press, political stability, law enforcement or corruption (Kaufman, Kraay, & Mastruzzi, 2010) that are more difficult to understand for foreign MNCs. Moreover, the interpretation of codified laws, rules and regulations requires a good understanding of the regulatory institutions in the host country (Peng *et al.*, 2008). Consistent with these arguments, prior studies have found that survival rates of foreign subsidiaries decrease at high levels of regulatory distance (Gaur & Lu, 2007). Moreover, previous work has also provided evidence for the idea that an increasing regulatory distance leads to a preference for low control governance modes in order to avoid challenges associated with differences in the regulatory environment between home and host countries (Xu, Pan & Beamish, 2004). Similarly, Brouthers (2002) found that in countries with restrictive regulatory institutions, MNCs are also likely to choose low control governance modes.

This study adopts a measure of regulatory distance that is based on the World Bank's Governance Indicators (Kaufman *et al.*, 2010). The World Bank Governance indicators cover 209 dimensions collected worldwide on an annual basis (bi-annual until 2002) starting in 1996 and consist of six aggregate indicators: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. These six aggregate indicators are based on 30 underlying data sources. Consistent with prior work (e.g., Ang & Michailova, 2008; Lavie & Miller, 2008), this study has used each year's score to represent two years in the sample for the time period 1996-2002 in which the indicators were only published on a bi-annual basis. The regulatory distance between home and host countries was then calculated using the Kogut and Singh (1988) approach to measuring cultural distance.

4.3.4.10 Cultural Differences

There are only a few factors that have received as much as attention as the effect of cultural differences on the choice of governance mode (Tihanyi *et al.*, 2005). In general, it has been argued that as the degree of cultural differences – i.e., cultural distance – between home and host countries increases, firms face greater uncertainty due to the lack of knowledge about the host country (Brouthers & Brouthers, 2001). Similarly, cultural differences also increase internal uncertainty, meaning that firms face difficulties to establish cause-effect relationships when evaluating the performance of foreign subsidiaries due to these cultural differences (Zhao, Luo & Suh, 2004). In this situation, firms will prefer flexible governance modes such as alliances over equity-based modes such as acquisitions. Moreover, firms may also seek to access knowledge about the local market by collaborating with a local partner firm (Brouthers & Brouthers, 2001; Erramilli & Rao, 1993; Koguth & Singh, 1988). In contrast, it has also been argued that cultural differences between home and host countries increase transaction costs associated with alliances as it is more difficult to monitor local partner firms. This increases the risk of appropriation of firm-specific knowledge and technology by the local partner (Hennart & Reddy, 1997). In order to mitigate these risks, firms are more likely to choose equity-based governance modes such as acquisitions as they allow greater control thereby reducing transaction costs. These competing theoretical arguments are also reflected in fragmented empirical findings (Brouthers & Brouthers, 2001; Tihanyi *et al.*, 2005).

While previous studies have extensively relied on cultural distance measures that seek to directly measure differences in the meaning systems between home and host countries (Brouthers & Brouthers, 2001; Tihanyi et al., 2005), this study adopts *indirect* measures of cultural distance; i.e., geographic distance and shared language. This is because cultural distance measures have been found to be highly correlated with regulatory distance (e.g., Yiu & Makino, 2002) and it is thus very problematic to use both measures simultaneously. However, geographic distance (Slangen & Beugelsdijk, 2010) and shared language (Ghemawat, 2001; Slangen & Beugelsdijk, 2010) have also been seen as proxies for cultural differences. Therefore, considering the limitations arising from the fact that cultural and regulatory distance are highly correlated, introducing two indirect proxies of cultural distance – in addition to regulatory distance – seems to be the logical choice in order to control for cultural differences between home and host countries. Geographic distance is measured as the log of the great-circle distance in kilometers between the capitals of home and host countries (Slangen & Beugelsdijk, 2010). Shard language is coded as a dummy variable taking the value of one if the home and host countries share an official language, and zero if otherwise.

4.4 Analysis

The appropriate statistical technique when using a binary dependent variable is logistic regression (Greene, 2004). Logistic regression is the appropriate technique since the conditional mean must lie between zero and one when using a dichotomous dependent variable; i.e. $0 \leq E(Y/x) \leq 1$ (Agresti & Finlay, 2009). Unlike linear regression models, logistic regression models ordinarily assume that the conditional mean of the dependent variable falls between zero and one. That is, logistic regression models assume that the probability for all possible x-values falls between 0 and 1 and, thus, shows an s-shaped response curve (Agresti & Finlay, 2009, p.484).

It is also important do determine whether fixed or random effect specification should be used. While the data of this study can be seen a pooled cross-sectional sample, others have argued that the sample has to be treated as unbalanced panel as the level of analysis is an announced acquisition (alliance) which is made by a sample of firms, some of which made multiple acquisitions and/or alliances over the observation period (e.g., Muehlfeld, Sahib, and van Witteloostuijn, 2012). This, however, raises the question whether fixed or random effects should be used. This study has used a Hausman test to choose between fixed and random effects specification. The results of the Hausman specification test show that fixed effects models are appropriate for the data used in this study ($x^2 = 158.07$; $p<0.001$). Accordingly, the *xtlogit* function in STATA 12 with fixed effects option (fe) has been used.

Fixed effects models, however, require that the value in both the dependent and independent variables change over time to ensure that these variables are different from the fixed effects (Judge, Griffiths, Hill & Lee, 1985). In the sample of this study, there are a number of firms with only one observation over the study period and other observations in which firms have announced multiple acquisitions or alliances in the same year meaning that there is no change in the independent or dependent variable. These observations will be dropped in a fixed effects model. While some might argue that this leads to biased estimation (Wiersema & Zhang, 2011), using fixed effects model remains the preferred choice given the benefits of controlling for time-invariant firm characteristics that could otherwise bias the results and the results of the Hausman specification test (Judge *et al.*, 1985; Greene, 2004). However, alternative random effects models on the full sample using the *xtlogit* function with random effects option (*re*) have been run and results of the main effects are similar. The reduced sample size for the fixed effects logistic regression models is 4,125 cross-border acquisitions and alliances. 65.7 percent (2,710) of the sample observations are cross-border acquisitions and 34.3 percent (1,415) are cross-border alliances.

CHAPTER 5
RESULTS AND CONCLUSIONS

5. Results and Discussion

5.1 Descriptive Statistics and Correlation Matrix

The means, standard deviations, and correlations for the dependent, independent, moderating, and control variables are presented in Table 1. There are no significant correlations between the first-order variables. However, additional tests have shown that there are some significantly high correlations between the variables and their interaction effects. As the focal variables and their interaction terms are both included in the same regression models to test the moderating effects, it is important to minimize the potential multicollinearity problem. In order to address the potential multicollinearity problem, this study has mean-centered the independent variables before calculating the interaction terms to limit issues arising from the potential multicollinearity of interaction terms. This is consistent with prior research (e.g., Mihalache, Jansen, van den Bosch & Volberda, 2012). To test whether multicollinearity remains an issue, collinearity diagnostics have been run on the full interaction model. In general, it has been suggested that the threshold for serious multicollinearity is VIF=10 (Cohen, Cohen, West & Aiken, 2003: 423). For the interaction model, the post-regression multicollinearity diagnostics demonstrate that the VIF for all variables is well below this threshold. Thus, multicollinearity was not considered to be an issue.

5.2 Hypotheses and other Results

5.2.1 Hypothesis 1

The results of the hypotheses testing are presented in Table 2. Model 1 in Table 2 is the baseline model and contains all control variables. Hypothesis 1 argues that as the number of foreign firms that have previously adopted acquisitions increases, the more likely is a focal firm to also choose cross-border acquisition as governance mode. In Model 2, the independent variable – foreign institutional pressure – is added.

Consistent with Hypothesis 1, Model 2 shows that the coefficient of institutional pressures is positive and significant ($p<0.05$). That is, the greater the number of foreign firms that have previously adopted acquisitions, the more likely is a focal firm to also choose acquisition as governance mode. The inclusion of the independent variable also significantly increases the explanatory power over the previous model ($\Delta chi^2=5.75(1)$, $p<0.05$). Therefore, Hypothesis 1 is supported.

5.2.2 Hypotheses 2 and 3

The three CEO compensation variables have been included in Model 3 of Table 2. Hypothesis 2 predicts that the positive relationship between the number of acquisitions that have been previously adopted by foreign firms and the subsequent adoption of acquisitions as governance mode will be weaker as the value of CEO option wealth in the form of (a) exercisable and (b) unexercisable stock options increases. Hypothesis 3 predicts a negative moderation effect of cash compensation on the positive relationship between foreign institutional pressures and the adoption of acquisitions as governance mode.

The three CEO compensation variables have been included in Model 3 of Table 2. While the coefficient of both exercisable options and cash compensation is not significant, the coefficient of unexercisable options is positive and significant ($p<0.01$). In Model 4, the interaction variables “foreign institutional pressures x exercisable options”, “foreign institutional pressures x unexercisable options”, and “foreign institutional pressures x cash compensation” are added. The inclusion of these variables increases the explanatory power of the model ($\Delta chi^2=15.58(3)$, $p<0.01$). However, the coefficient of the interaction variable "foreign institutional pressures x exercisable options" is found to have no significant effect (β=0.05, $p>0.10$). In contrast, the coefficient of "foreign institutional pressures x unexercisable options" has a significant negative effect on the positive effect of institutional pressures on the choice of governance mode (β=-0.12, $p<0.01$). Moreover, although the independent main effect of unexercisable options persists in the full model, the coefficient of the interaction effect is larger than the main effect meaning that the net effect becomes negative. Therefore, Hypothesis 2a is not supported and Hypothesis 2b is supported.

The results also show that the coefficient of "foreign institutional pressures x cash compensation" has a negative significant effect on the choice between alliances and acquisitions (β=-0.23, $p<0.10$). Thus, Hypothesis 3 is also supported.

5.2.3 Control Variables

The results for the control variables are mostly consistent with prior research. Specifically, the coefficients of the variables measuring country-level differences between home and host countries show that as geographic distance ($p<0.001$) and regulatory distance ($p<0.001$) increases, MNCs are more likely to opt for the low risk alliance governance mode. In contrast, the absence of a shared language ($p>0.10$) has no effect on the choice between cross-border alliances and acquisitions. This may be explained with the fact that the absence of a shared language is not commonly seen as a relevant factor in a globalized market. As English has become the dominant global business language, US manufacturing firms may thus assume that key positions in foreign operations can be filled with people that can effectively communicate with both the headquarter and the local workforce (Piekkari, Vaara, Tienari & Saentti, 2005). As expected, the coefficient of diversification is negative and significant(β=-0.65, $p<0.001$). However, the coefficient of resource-intensive industries is not significant (p>0.10). Instead of natural resources, some recent studies indicate that the focus may have shifted to technological resources that may explain the choice of cross-border governance mode (Anand & Delios, 2002). This explanation is consistent with the observation that R&D spending has been found to be a significant predictor of the choice of governance mode.

At the firm-level, all coefficients of the variables controlling for firm-level effects are significant. Firm size (p<0.001) and prior performance (p<0.05) are positively related to the choice of cross-border acquisitions. In contrast, MNCs with relatively high levels of R&D spending are more likely to select cross-border alliances (p<0.05). These findings are consistent with previous research. The results also show that CEO tenure is negatively related to the choice of cross-border acquisitions over alliances (p<0.05). While this contrasts with some previous findings demonstrating that CEO tenure is positively related to full-control governance modes (e.g., Herrmann & Datta, 2002), it is consistent with most of the upper echelons literature suggesting that there is a negative relationship between CEO tenure and risk taking (e.g., MacCrimmon & Wehrung, 1990). The coefficients of the variables controlling for CEO age (p>0.10) and CEO gender (p>0.10) are not significant. While CEO gender may play an important role, there are only a few female CEOs in the sample of this study which may explain the non-significant finding. The non-significant finding for CEO age is surprising. However, some previous research has already speculated that the effect of CEO age on organizational outcomes may be the result of the interplay between age and education, work experiences, organizational experiences, industry experiences or in fact a reflection of cognitive patterns that emerge over time. As such, it may be difficult to observe direct effects of CEO age on firm strategy (Bantel & Jackson, 1989; Finkelstein, Hambrick & Cannella, 2009).

5.2.4 Robustness Check

Previous work has suggested that MNCs face two different forms of pressures emanating from the behavior of other firms when operating in foreign countries (Ang *et al.*, 2014; Salomon & Wu, 2012). Specifically, it is important to differentiate between pressures associated with the behavior of foreign vis-à-vis local (domestic) firms. Considering that local firms do not face the challenges associated with the liability of foreignness, the pressures associated with their behavior is different to those stemming from the behavior of other foreign firms. However, while these pressures are conceptually distinct, there is no reason to expect that the theoretical framework presented here only holds for institutional pressures stemming from the behavior of foreign firms. In order to test whether the theoretical framework put forward in this study also holds when institutional pressures stemming from the behavior of domestic firms are considered, additional sensitivity tests have been conducting in order to test the effect of exercisable and unexercisable options and cash compensation on the relationship between local institutional pressures and the choice between cross-border alliances and acquisitions.

The results are reported in Table 3. As can be seen from Model 4 of Table 3, the results are similar to those reported previously. The coefficient of "local institutional pressures x exercisable options" is found to be not significant ($p>0.10$). In contrast both the coefficient of "institutional pressures x unexercisable options" ($p<0.01$) and "institutional pressures x cash compensation" ($p<0.05$) are positive and significant. The inclusion of the interaction terms also increases the explanatory power of the model compared to the previous model (ΔX^2=18.78(3), $p<0.001$). The results for the control variables are also consistent with those noted above when foreign institutional pressures are considered. Therefore, it can be concluded that the framework presented in this study also holds when institutional pressures stemming from the behavior of foreign firms are considered.

5.3 Discussion

The objective of this study has been to examine how CEOs manage the tension between legitimacy risks and business risks when responding to institutional pressures. Drawing on BAM, this study has focused specifically on the role of CEO risk bearing in response to compensation design as a moderator of institutional pressure. In support of the arguments put forward in this study, it has been found that CEOs with relatively highly valued unexercisable options are more willing to resist institutional pressures if this allows them to select a strategy associated with lower levels of risk to their personal wealth. Similarly, this study has also found some support for the idea that CEOs whose wealth-at-risk of loss in the form of cash compensation increases are also more likely to deviate from the norm by choosing a low risk governance mode such as alliances. In sum, these findings lend support for the key hypothesis that variations in CEO risk bearing account for practice variation within organizational fields. It is believed that these findings have important theoretical implications for both neoinstitutional theory and BAM.

5.3.1 Main Findings and Implications for Theory

There has been an increasing interest in exploring the antecedents of practice variation within organizational fields. In particular, neoinstitutional theorists have explored the concepts of competing institutional logics, institutional entrepreneurship, and decoupling. Moreover, a number of studies have also examined barriers to the adoption of institutionalized practices such as firm-specific experience, temporal and spatial effects, and ownership structures. Yet, most of this literature has focused on the firm-level and the few exceptions exploring the role of individuals in institutional processes have neglected the important role of CEO risk bearing. This study thus departs from previous work by explaining the effect of individual agency and opportunistic agent risk management on practice variation within organizational fields. As such, this study advances theory in at least two directions.

First, this study draws attention to the distinct risks to the CEO's personal wealth created by the pursuit of isomorphic strategies. That is, previous research has almost exclusively focused on the reduction of legitimacy risks when explaining institutional processes. As a result, neoinstitutional theorists have paid relatively little attention to the fact that the adoption of isomorphic strategies can also create risks to the firm-specific wealth of the CEO. By systematically analyzing how CEOs manage the tension between legitimacy risks and business risks this study has thus provided an alternative explanation for practice variation within organizational fields. In particular, this study has relaexed the longstanding neoinstitutional assumption that firms – and their CEOs – are generally willing to select isomorphic strategies as long as they are compensated for the higher business risks they are taking with the reduction in legitimacy risks (DiMaggio & Powell, 1983; Meyer & Rowan, 1977), implying that they make strategic choices without regard to the risk to their personal equity wealth associated with the underlying strategic choices. Instead, it has been shown that the CEO is cognizant of the potential these two dimensions of risk have to impose losses upon the firm and their accumulated firm-specific wealth and will therefore actively manage the tension between the two.

The observation that CEOs are not always willing to accept higher business risks even if they are compensated for these higher business risks in the form of legitimacy risk reduction is particularly important as it shows that neoinstitutional theorists have to consider the risk preference of the CEO when exploring institutional processes (Berrone *et al.*, 2010). Specifically, this study has suggested that CEOs are generally loss-averse; meaning that they prioritize wealth protection over wealth maximization (Wiseman & Gomez-Mejia, 1998) and managerial agents thus prefer options that completely avoid anticipated losses over options that are less risky but only minimize anticipated losses (Thaler & Johnson, 1990). The notion of loss aversion is critical as it suggests that CEOs vary in the degree to which they are willing to accept higher business risks associated with the pursuit of isomorphic strategies. The results reported in this study support the logic that loss-averse CEOs are indeed willing to resist institutional pressures if the adoption of isomorphic strategies poses a threat to their current personal wealth in the form of unexercisable options and cash compensation. Thus, this study suggests that neoinstitutional theorists have to carefully consider the CEO's risk bearing when analyzing their responses to institutional pressures.

This study has also clearly distinguished between the payoffs of isomorphic (reduction of legitimacy risks) and nonisomorphic (reduction of business risks) strategies. In particular, this study has argued that the benefits for CEOs associated with the pursuit of isomorphic strategies lie in the future (protection of future earnings potential) while the benefits related to nonisomorphic strategies are immediately realized (protection of current wealth). As such, this study has drawn attention to the different time horizons associated with the benefits for CEOs related to the pursuit of isomorphic vis-à-vis nonisomorphic strategies. Previous work has suggested that organizational decision-makers are always sensitive to the legitimacy risk associated with the choice of nonisomorphic strategies and thus will generally conform to institutional pressures (Lieberman & Asaba, 2006). However, these studies have not considered the different time horizons associated with the benefits related to the pursuit of isomorphic strategies vis-à-vis nonisomorphic strategies. The present study thus makes an important contribution to the literature in that the results show that CEOs that have an incentive to protect their current wealth are indeed willing to resist institutional pressures and select nonisomorphic strategies. This suggests that neoinstitutional theorists have to also consider the time horizon associated with the benefits of legitimacy reduction when exploring institutional processes.

By explaining how CEOs manage the tension between legitimacy and business risks, this study also extends the work by Fiss and Zajac (2004), Kennendy and Fiss (2009) and Westphal and Zajac (1994, 2001), among others. These studies have demonstrated that CEOs only ceremonially adopt a formal policy without actually implementing it if the policy is incompatible with their self-interest. However, this line of work is also based on the assumption that CEOs generally have an incentive to initially adopt isomorphic strategies in order to gain or protect their legitimacy and resistance to institutional pressures is thus only reflected in their reluctance to support the substantial implementation of the adopted institutionalized practices. The present study, however, demonstrates that the interplay between CEO self-interest and institutional forces not only explains decoupling but also the choice of isomorphic vis-à-vis nonisomorphic strategies. This finding is important as it demonstrates that neoinstitutional theorists interested in the interplay between managerial self-interest and institutional pressures have to already consider the initial adoption decision and not only focus on the question whether the adopted institutionalized practice is actually implemented. In particular, explanations of practice variation within organizational fields need to account for the possibility that firm responses to institutional pressures are driven by the self-interest of managerial agents such as CEOs.

Second, this study also provides an alternative pathway for researchers interested in exploring heterogeneity in firm strategies within organizational fields. While the strategy literature has increasingly leveraged neoinstitutional theory to explain firm strategy, existing theory has not been well adapted to explain firm heterogeneity (Marcel *et al.*, 2010). Previous work identifying the microfoundations of response to institutional pressures has addressed this limitation by adopting a managerial cognition lens (e.g., Crilly *et al.*, 2012; George *et al.*, 2006; Lepoutre & Valente, 2012; Marcel *et al.*, 2010; Tilcsik, 2010). These studies have argued that the way organizational decision-makers frame, interpret, and make sense of the world explains why firms respond differently to the same institutional pressures. Supplementing this work, the results presented here suggest that the interplay between institutional pressures and a CEO's risk bearing explains strategic choices and subsequently firm heterogeneity within organizational fields. The studies adopting a managerial cognition approach have offered relatively little explanation as to what shapes the way organizational decision-makers frame institutional pressures. As such, this study adds to this work by introducing an agency-based perspective of heterogeneity in firm strategies within organizational fields. From this behavioral agency perspective, the way CEOs perceive the world is largely dependent on the perceived threat to current wealth (Wiseman & Gomez-Mejia, 1998).

In this regard, this study also advances some more recent work by George *et al.* (2006) by demonstrating that the protection of personal wealth may also play an important role in institutional processes. George *et al.* (2006) have shown that organizational decision-makers that frame a situation as a loss context – i.e., a potential loss of resources – are likely to select nonisomorphic strategies while those decision-makers that frame a decision situation as a potential gain context – i.e., a potential gain of resources – are expected to initiate isomorphic strategies. However, George *et al.* (2006) have exclusively focused on *organizational* resources (see also Chattopadhyay, Glick & Huber, 2001). Similarly, Oliver (1991) also argues that the degree to which a focal organization is dependent on other resources-providers within the organizational field determines its response to institutional pressures. Extending the work by George *et al.* (2006) and Oliver (1991), among others, this study finds that personal wealth-at-risk also influences the degree to which CEOs conform to institutional pressures associated with the behavior of other firms. More specifically, this study shows that the accumulated value of unexercisable options and cash compensation influences their responses to institutional pressures. This finding suggests that neoinstitutional theorists have to also consider the CEO's *personal* resources – including their wealth-at-risk-of-loss – when analyzing how they frame a decision situation which in turn influences their responses to institutional pressures.

At this point, it is important to note that the organizational field may put constraints on this process (Ocasio, 1997). As described earlier, neoinstitutional theorists have acknowledged that it may be problematic to explain how individuals resist institutional pressures considering that they have been socialized within the organizational field whose norms they are challenging. This problem has been described as the "paradox of embedded agency" (Seo & Creed, 2002). However, agency theorists have generally argued that managerial self-interest is institutionally embedded (Eisenhardt, 1989; Jensen & Meckling, 1976) and it is thus reasonable to suggest that CEO self-interest and opportunistic risk management are particularly suitable concepts to explain practice variation within organizational fields. Specifically, the data supports the contention that self-interested CEOs may be more inclined to adopt nonisomorphic strategies if they perceive a lower threat to their firm-specific wealth, given lower risk bearing liberates them to actively pursue higher risk isomorphic strategies. As such, by focusing on CEO risk bearing as an antecedent of the adoption of nonisomorphic strategies, this study has offered a more nuanced explanation for the motivation behind such interest-seeking behavior that may help neoinstitutional theorists to explain practice variation within the boundaries existing theory.

In this regard, this study also makes an empirical contribution as the results show a significant main effect of the proxy for foreign institutional pressure. That, is this study has also found support for the isomorphism hypothesis which is central to neoinstitutional theory. As such, the present study corroborates previous findings indicating that institutional pressures explain a significant variation in the adoption of cross-border governance modes. For example, Xia *et al.* (2008) show that institutional pressures explain the rise and decline of joint ventures and acquisitions as cross-border governance strategies, Garcia-Pont and Nohria (2002) demonstrate that the adoption of isomorphic strategies explain the dynamics of alliance formation, and Ang and Michailova (2008) find that mimetic institutional pressures explain the choice between equity and non-equity alliances. The results reported in this study are thus particularly important as they show that the isomorphism hypothesis holds even after the introduction of new variables. Moreover, the sensitivity tests reported in this study also show that the explanation put forward in this study as to how CEOs manage the between legitimacy and business risk also holds if local institutional pressure – i.e., the frequent adoption of acquisitions by domestic firms – is considered.

5.3.2 Additional Findings and Implications for Theory

In addition to the two key contributions noted above, the results reported in this study also make two minor contributions to the literature. First, by focusing on individual agency this study directly responds to recent calls for a reintroduction of the human element into international business research (Brouthers & Hennart, 2007). In particular, relatively few studies have explored the effect of compensation arrangements on MNC strategy. The few exceptions have focused on the independent main effects of CEO compensation on the choice of governance mode (e.g., Musteen, Datta & Herrmann, 2009). While these studies have shown that demographic variables explain some variation in the choice of cross-border governance mode, this work has neglected the importance of also considering the social context in which MNCs are embedded. This study therefore adds to the increasing body of knowledge within the international business literature employing neoinstitutional theory (Bruton *et al.*, 2004; Peng *et al.*, 2008). That is, by showing that the interplay between the organizational field and CEO compensation allows for prediction of the choice of cross-border governance mode, this study has offered this stream of literature a pathway to further explore the effect of CEOs in institutional processes on a global scale.

In a similar vein, this study also offers an alternative perspective on existing explanations of practice variations among MNCs by exploring the effect of CEO compensation on the adoption of isomorphic vis-à-vis nonisomorphic cross-border governance strategies. To date, comparatively little is known about MNCs and practice variation within organizational fields (Kostova *et al.*, 2008). This is somewhat surprising considering that neoinstitutional theory has prominently featured in the international business strategy literature (Bruton *et al.*, 2004; Peng *et al.*, 2008). The few studies exploring MNCs and practice variation have predominantly adopted an institutional entrepreneurship perspective suggesting that MNCs – like other institutional entrepreneurs – that are willing to challenge local institutional norms have to accumulate social resources in order to be able to resist host country institutional pressures. For example, Kostova and Roth (2002) argue that the liability of foreignness is overcome as the embeddedness of MNCs in local institutional contexts increases (see also Pinkse & Kolk, 2012; Yiu & Makino, 2002). In contrast, this study has shown that MNCs and their

CEOs are indeed willing to resist institutional pressures without previously accumulating social resources in the host country. Specifically, by introducing an agency-based perspective of practice variation this study offers international business scholars interested in MNCs and practice variation an alternative avenue to explore this phenomenon.

Second, this study also contributes to the behavioral agency literature by drawing attention to the organizational field when examining the risk behavior of the managerial agent. The role of institutional forces has not previously been considered by research examining the effect of incentive alignment systems – such as equity based pay – upon agent risk taking. Previous studies have argued that the CEO will avoid high risk strategies, such as acquisitions, at higher levels of CEO firm-specific wealth-at-risk (or risk bearing) (Larraza-Kintana *et al.*, 2007; Devers *et al.*, 2008; Martin *et al.*, 2013). Indeed, this risk aversion due to the managerial agent's concentration of firm-specific wealth has long been argued by agency scholars (Holmstrom, 1979; Shavell, 1979). The present study refines these arguments by theorizing that in addition to the effect of CEO risk bearing, institutional forces are also at play. Specifically, the results reported in this study demonstrate that CEOs may persist with higher risk strategies despite having higher levels of firm-specific risk bearing, if institutional pressure is strong. Thus, this study provides that insight that it is important to also consider social expectations (or legitimacy concerns) within the organizational field when predicting agent risk behavior. Said differently, this study suggests that behavioral agency research has been under-socialized in its predictions of agent (or CEO) risk behavior – a shortcoming that this study has aimed to address.

Interestingly, the results show different moderating effects of exercisable options relative to unexercisable options on the CEO's responses to institutional pressures. In this regard, the differing support for Hypotheses 2 potentially provides an interesting insight into the different endowment effects of exercisable options relative to unexercisable options in the context of cross-border acquisition decisions. Exercisable options are typically realized (or cashed out) within a two year period (Huddart & Lang, 1996). By contrast, unexercisable stock options have up to four years before their value can be realized (Martin *et al.*, 2013). Given that CEOs have the possibility of realizing any accumulated wealth inherent to exercisable stock options, CEOs may be able to decouple their personal wealth to some degree from firm performance and may thus not be as affected by the business risks associated with the adoption of conformity strategies. That is, they may realize their accumulated wealth inherent to exercisable stock options prior to the announcement of a cross-border acquisition in response to institutional pressures. Indeed, Devers, McNamara, Haleblian and Yoder (2013) have shown that CEOs frequently cash out their exercisable options around acquisition announcements. This may explain why the accumulated value of unexercisable appears to have a stronger moderating influence upon CEO decision-making with regard to acquisitions. As such, these results echo some findings reported by Devers *et al.* (2008) showing that exercisable and nonexercisable options can have differing effects on CEO risk taking.

5.3.3 Practical Implications

In addition to the theoretical contributions noted above, the findings reported in this study also provide insights for boards of directors and compensation committees interested in predicting or influencing the effect of CEO incentives upon subsequent strategic behavior. At a broad level, this study has shown that the interplay between CEO compensation and institutional forces explains the CEO’s risk taking behavior. As such, when deciding upon grants of equity and cash compensation necessary to incentivize the CEO to engage in behaviors desired by firm stakeholders, this study has demonstrated that it is critical to also consider the institutional forces at work. For example, if a firm wishes its CEO to engage in cross-border acquisitions and institutional pressures exists for them to do so, the board of directors must be aware that these forces are likely to be mitigated or negated if the CEO has sufficient risk bearing in the form of option wealth or cash compensation. Conversely, if a firm's board wishes the firm to pursue lower risk strategies, they must be aware that the effect of compensation related risk bearing will interact with isomorphic pressures. If the board anticipates strong institutional pressures to pursue high risk strategies and is opposed to it, it may need to increase CEO risk bearing – for example through granting of unexercisable options or increasing cash compensation – in order to incentivize the CEO to resist institutional forces.

The observation that institutional forces can not only influence CEO risk taking but also counteract the effect of equity and non-equity components of the CEO's compensation on their behavior is also important as it demonstrates that boards of directors and compensation committees of MNCs face particularly strong challenges to design CEO compensation contracts considering that these firms are exposed to multiple organizational fields (Kostova *et al.*, 2008; Sanders & Tuschke, 2007). That is, MNCs operate in multiple countries each featuring its own set of cognitive, normative, and regulatory institutions (Scott, 2001). Moreover, even the organizational field within a focal country is often fragmented and characterized by conflicting institutional forces (Briscoe & Safford, 2008; Chuang *et al.*, 2011). This further complicates the task of boards of directors and compensation committees to design compensation packages that incentive CEOs to act in the best interest of the shareholders. Therefore, this study points towards the difficulties boards of directors and compensation committees face when designing the compensation package of the CEO considering that they also have to take into account the institutional forces that may offset some of the desired effects associated equity and non-equity components of the CEO's compensation.

5.3.4 Limitations and Future Research

While the results reported in this study offer important insights in the importance of individual agency and opportunistic risk management in institutional processes, this study is not free of limitations. First, this study has focused on one particular form of institutional pressures; i.e. mimetic institutional pressures. As noted earlier, there are at least two other forms of institutional pressures, namely coercive and normative pressures, which also play an important role in isomorphic processes. While there is no reason to believe that the theoretical framework put forward in this study cannot be applied to these different forms of institutional pressures, this study has controlled – at least to some degree – for the existence of both coercive (regulatory distance) and normative (same language, geographic distance) pressures. Therefore, this study has followed Mizruchi and Fein's (1999) suggestion to include measures that capture all three forms of institutional pressures. However, future research is encouraged to validate the findings reported in this study by replicating the framework with other forms of institutional pressures.

Second, it is believed that there is an opportunity to explore how different CEO-board relationships might further alter the hypothesized relationships. Previous work has indicated that some CEOs have more discretion than others. The notion of managerial discretion is potentially important as the degree to which CEOs in fact affect organizational outcomes may be dependent on how much managerial discretion exists (Finkelstein & Boyd, 1998; Finkelstein & Hambrick, 1990; Hambrick & Finkelstein, 1987). Thus, it might be possible that CEOs with greater power over their boards have a greater amount of discretion which in turn should strengthen the proposed moderating effects. While this study controls for CEO tenure which has been shown to influence managerial discretion (Finkelstein & Boyd, 1998), future research could more directly examine the effect of CEO-board relationships which influence managerial discretion on CEOs responses to institutional pressures. In a similar vein, the results reported in this study are based upon data from US manufacturing firms. Some recent studies (Crossland & Hambrick, 2011) have indicated that constraints imposed on CEOs by the organizational field might differ across countries. Future research could pursue the question if the effects reported in this study vary across home countries due to differences in the organizational fields.

Third, for analytical purposes this study has focused on a particular decision-making context in which the reduction of legitimacy risks (i.e., cross-border acquisitions as an isomorphic response) implies the acceptance of higher business risks (forfeiting alliances as a cross-border governance mode choice). While this is an ideal context to test the theoretical framework put forward in this study, it would be interesting to explore other situations where this may not be the case (for example, where higher legitimacy through an isomorphic response facilitates access to critical organizational resources and this in turn reduces business risks). Similarly, future research is also encouraged to validate the findings reported in this study by replicating the framework to other decision-making contexts. For example, it might be a fruitful exercise to test how CEO compensation moderates firm responses to institutional pressures to engage in risky firm expenditures such as R&D investments.

5.3.5 Conclusion

This study explores the effect of CEO compensation on their responses to institutional pressures. The research questions posed at the outset of this study have been addressed as follows. First, the results show that CEOs are generally inclined to conform to the behavior of other MNCs when selecting a cross-border governance mode. In particular, the empirical evidence shows that there is a relationship between the number of acquisitions that have been previously adopted by foreign firms and the CEO's subsequent adoption of acquisitions as governance mode. Second, this study demonstrates that CEO compensation influences the choice between isomorphic and nonisomorphic strategies. Specifically, this study shows that CEOs whose wealth-at-risk of loss in the form of unexercisable options and cash compensation increases are more likely to deviate from the norm by choosing a low risk governance mode such as alliances. Despite the limitations noted above, this study provides important insights for researchers interested in neoinstitutional theory and the effect of CEO compensation on strategic decision-making.

Tables

Table 1 Descriptive Statistics and Correlations (N=4125)

	Variable	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1)	Governance mode is acquisition	0.66	0.47												
(2)	CEO Tenure	5.89	5.36	-0.01											
(3)	CEO Age	55.52	5.81	0.01	0.32										
(4)	CEO Gender	0.98	0.13	-0.00	0.07	0.13									
(5)	Shared Language	0.31	0.46	0.11	0.03	-0.04	0.00								
(6)	Geographic Distance	3.85	0.31	-0.22	-0.02	0.03	0.01	-0.28							
(7)	Regulatory Distance	1.22	1.46	-0.29	-0.04	0.06	0.04	-0.23	0.25						
(8)	Host Country Acquisition Experience	0.32	0.47	0.24	-0.02	0.02	-0.01	0.14	-0.18	-0.22					
(9)	Cross-Border Acquisition Experience	0.63	0.39	0.13	-0.06	0.03	-0.02	-0.03	0.02	0.03	0.29				
(10)	Firm Size	9.93	0.74	-0.03	-0.14	0.06	-0.06	-0.03	0.07	0.09	0.17	0.48			
(11)	Prior Performance	0.12	0.07	0.05	0.03	0.06	0.00	0.04	-0.02	-0.04	-0.02	0.05	-0.07		
(12)	R&D Spending	0.06	0.14	-0.04	-0.14	-0.05	-0.02	-0.01	0.03	-0.06	0.09	0.14	0.36	-0.13	
(13)	Resource-based Sub-Industry	0.12	0.33	0.05	0.02	0.07	-0.05	-0.03	0.01	0.11	-0.02	0.05	-0.00	0.12	-0.35
(14)	Diversification	0.57	0.50	-0.11	-0.00	-0.05	0.02	0.08	-0.06	-0.07	0.01	0.04	0.05	0.01	0.16
(15)	Institutional Pressures	0.51	0.51	0.09	-0.02	-0.10	-0.02	0.18	-0.17	-0.16	0.22	0.05	0.11	-0.02	0.17
(16)	Exercisable Stock Options	5.68	2.55	0.03	0.03	0.07	0.10	-0.01	0.00	-0.02	0.05	0.22	0.17	0.18	-0.11
(17)	Nonexercisable Stock Options	4.91	2.78	0.02	0.01	-0.00	0.09	-0.02	-0.00	0.00	0.05	0.17	0.14	0.09	0.11
(18)	Cash Compensation	6.17	0.62	0.00	0.01	0.14	-0.02	-0.01	0.02	0.05	0.08	0.22	0.30	0.02	0.06

	Variable	(13)	(14)	(15)	(16)	(17)
(14)	Diversification	-0.19				
(15)	Institutional Pressures	-0.19	0.11			
(16)	Exercisable Stock Options	-0.01	0.03	0.02		
(17)	Nonexercisable Stock Options	-0.02	0.00	0.06	0.52	
(18)	Cash Compensation	0.03	-0.02	-0.01	0.22	0.17

$|r| > 0.063$ – $p < 0.10$; $|r| > 0.073$ – $p < 0.05$; $|r| > 0.103$ – $p < 0.01$; $|r| > 0.123$ – $p < 0.001$

Table 2 Fixed Effects Logistic Regression Results Foreign Pressures (N=4125)

Variables	Model 1	Model 2	Model 3	Model 4
CEO Tenure	-0.03(0.01)*	-0.03(0.01)†	-0.03(0.01)†	-0.03(0.01)*
CEO Age	0.00(0.01)	0.00(0.01)	0.00(0.01)	0.00(0.01)
CEO Gender	0.13(0.35)	0.17(0.35)	0.06(0.36)	0.05(0.36)
Shared Language	0.14(0.10)	0.11(0.10)	0.12(0.10)	0.12(0.10)
Geographic Distance	-1.60(0.18)***	-1.55(0.18)***	-1.55(0.18)***	-1.54(0.18)***
Regulatory Distance	-0.44(0.03)***	-0.44(0.03)***	-0.44(0.03)***	-0.45(0.03)***
Host Country Acquisition Experience	0.55(0.10)***	0.51(0.10)***	0.50(0.10)***	0.51(0.10)***
Cross-Border Acquisition Experience	0.36(0.18)*	0.36(0.18)*	0.35(0.19)†	0.32(0.19)†
Firm Size	1.77(0.22)***	1.70(0.22)***	1.74(0.22)***	1.77(0.22)***
Prior Performance	2.15(0.92)*	2.25(0.92)*	2.13(0.93)*	2.21(0.95)*
R&D Spending	-0.14(0.06)*	-0.14(0.06)*	-0.14(0.06)*	-0.15(0.06)*
Resource-based Sub-Industry	0.14(0.18)	0.17(0.18)	0.18(0.18)	0.19(0.18)
Diversification	-0.66(0.10)***	-0.67(0.10)***	-0.66(0.10)***	-0.65(0.10)***
Foreign Institutional Pressures		0.22(0.09)*	0.22(0.09)*	0.24(0.09)*
Exercisable Stock Options			-0.02(0.02)	-0.01(0.02)
Unexercisable Stock Options			0.06(0.02)**	0.05(0.02)**
Cash Compensation			-0.12(0.09)	-0.05(0.10)
Foreign Institutional Pressures x Exercisable Stock Options				0.05(0.04)
Foreign Institutional Pressures x Unexercisable Options				-0.12(0.04)**
Foreign Institutional Pressures x Cash Compensation				-0.23(0.12)†
Log Likelihood	-1,561.09	-1,558.22	-1,553.11	-1,545.32
Chi-square (d.f.)	684.77(13)***	690.52(14)***	700.73(17)***	716.31(20)***
Change in Chi-square (d.f.) over previous model		5.75(1)*	10.21(3)*	15.58(3)**

Two-tailed tests. † $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Table 3 Fixed Effects Logistic Regression Results Local Pressures (N=4125)

Variables	Model 1	Model 2	Model 3	Model 4
CEO Tenure	-0.03(0.01)*	-0.03(0.01)†	-0.03(0.01)†	-0.03(0.01)*
CEO Age	0.00(0.01)	0.00(0.01)	0.00(0.01)	0.00(0.01)
CEO Gender	0.13(0.35)	0.16(0.35)	0.05(0.36)	0.05(0.36)
Shared Language	0.14(0.10)	0.11(0.10)	0.11(0.10)	0.12(0.10)
Geographic Distance	-1.60(0.18)***	-1.57(0.18)***	-1.57(0.18)***	-1.58(0.18)***
Regulatory Distance	-0.44(0.03)***	-0.43(0.03)***	-0.44(0.03)***	-0.44(0.03)***
Host Country Acquisition Experience	0.55(0.10)***	0.50(0.10)***	0.50(0.10)***	0.51(0.10)***
Cross-Border Acquisition Experience	0.36(0.18)*	0.37(0.18)*	0.36(0.19)†	0.32(0.19)†
Firm Size	1.77(0.22)***	1.68(0.22)***	1.72(0.22)***	1.73(0.23)***
Prior Performance	2.15(0.92)*	2.28(0.92)*	2.17(0.92)*	2.21(0.93)*
R&D Spending	-0.14(0.06)*	-0.14(0.06)*	-0.14(0.06)*	-0.15(0.07)*
Resource-based Sub-Industry	0.14(0.18)	0.16(0.18)	0.17(0.18)	0.18(0.18)
Diversification	-0.66(0.10)***	-0.68(0.10)***	-0.68(0.10)***	-0.66(0.10)***
Local Institutional Pressures		0.19(0.08)*	0.19(0.08)*	0.20(0.08)*
Exercisable Stock Options			-0.02(0.02)	-0.01(0.02)
Unexercisable Stock Options			0.06(0.02)**	0.06(0.02)**
Cash Compensation			-0.12(0.09)	-0.03(0.10)
Local Institutional Pressures x Exercisable Stock Options				0.01(0.03)
Local Institutional Pressures x Unexercisable Options				-0.09(0.03)**
Local Institutional Pressures x Cash Compensation				-0.25(0.12)*
Log Likelihood	-1,561.09	-1,558.22	-1,552.96	-1,543.58
Chi-square (d.f.)	684.77(13)***	690.53(14)***	701.03(17)***	719.80(20)***
Change in Chi-square (d.f.) over previous model		5.75(1)*	10.50(3)*	18.78(3)***

Two-tailed tests. † $p< 0.10$; * $p< 0.05$; ** $p< 0.01$; *** $p< 0.001$

Reference List

Abolafia, M.Y., & Kilduff, M. 1988. Enacting market crisis: The social construction of a speculative bubble. Administrative Science Quarterly, 33(2): 177-193.

Agarwal, A., & Mandelker, G.N. 1987. Managerial incentives and corporate investment and financing decisions. *Journal of Finance*, 42(4): 823-837.

Aguilera, R.V., Filatotchev, I., Gospel, H., & Jackson, G. 2008. An organizational approach to comparative corporate governance: Costs, contingencies, and complementarities. *Organization Science*, 19(3): 475-492.

Aguilera, R.V., & Jackson, G. 2003. The cross-national diversity of corporate governance: Dimensions and determinants. *Academy of Management Review*, 28(3): 447-465.

Alakent, E., & Lee, S.-H. 2010. Do institutionalized traditions matter during crisis? Employee downsizing in Korean manufacturing organizations. *Journal of Management Studies*, 47(3): 509-532.

Aldrich, H.E., & Fiol, C.M. 1994. Fools rush in? The institutional context of industry creation. *Academy of Management Review*, 19(4): 645-670.

Amburgey, T.L., & Miner, A.S. 1992. Strategic momentum: The effects of repetitive, positional, and contextual momentum on merger activity. *Strategic Management Journal*, 13(5): 335-348.

Anand, J., & Delios, A. 2002. Absolute and relative resources as determinants of international acquisitions. *Strategic Management Journal*, 23(2): 119-134.

Anand, N., & Jones, B.C. 2008. Tournament rituals, category dynamics, and field configuration: The case of the booker prize. *Journal of Management Studies*, 45(6): 1036-1060.

Anand, N., & Watson, M.R. 2004. Tournament rituals in the evolution of fields: The case of the Grammy Awards. *Academy of Management Journal*, 47(1): 59-80.

Ang, S.H., Benischke, M.H., & Doh, J.P. 2014. The interrelationship among the three pillars of institutions: Evidence from emerging economies. *Working Paper*.

Ang, S.H., & Michailova, S. 2008. Institutional explanations of cross-border alliance modes: The case of emerging economies firms. *Management International Review*, 48(5): 551-576.

Ansari, S., & Phillips, N. 2011. Text Me! New Consumer Practices and Change in Organizational Fields. Organization Science, 22(6): 1579-1599.

Arregle, J.-L., Hebert, L., & Beamish, P.W. 2006. Mode of international entry: The advantages of multilevel methods. *Management International Review*, 46(5): 597-618.

Ashforth, B.E., & Gibbs, B.W. 1990. The double-edge of organizational legitimation. *Organization Science*, 1(2): 177-194.

Bansal, P., & Clelland, I. 2004. Talking trash: Legitimacy, impression management, and unsystematic risk in the context of the natural environment. *Academy of Management Journal*, 47(1): 93-103.

Bantel, K.A., & Jackson, S.E. 1989. Top management and innovations in banking: Does the composition of the top team make a difference? *Strategic Management Journal*, 10(S1): 107-124.

Barkema, H.G., Bell, J.H.J., & Pennings, J.M. 1996. Foreign entry, cultural barriers, and learning. *Strategic Management Journal*, 17(2): 151-166.

Barkema, H.G., Shenkar, O., Vermeulen, F., & Bell, J.H.J. 1997. Working abroad, working with others: How firms learn to operate international joint ventures. *Academy of Management Journal*, 40(2): 426-442.

Barker, V.L., & Mueller, G.C. CEO characteristics and firm R&D spending. *Management Science*, 48(6): 782-801.

Barley, S.R., & Tolbert, P.S. 1997. Institutionalization and structuration: Studying the links between action and institution. *Organization Studies*, 18(1): 93-117.

Barnett, M.L., & King, A.A. 2008. Good fences make good neighbors: A longitudinal analysis of an industry self-regulatory institution. *Academy of Management Journal*, 51(6): 1150-1170.

Barney, J. 1991. Firm resources and sustained competitive advantage. *Journal of Management*, 17(1): 99-120.

Barreto, I., & Baden-Fuller, C. 2006. To conform or to perform? Mimetic behavior, legitimacy-based groups and performance consequences. *Journal of Management Studies*, 43(7): 1559-1581.

Battilana, J. 2011. The enabling role of social position in diverging from the institutional status quo: Evidence from the UK National Health Service. *Organization Science*, 22(4): 817-834.

Battilana, J., & Casciaro, T. 2012. Change agents, networks, and institutions: A contingency theory of organizational change. *Academy of Management Journal*, 55(2): 381-398.

Battilana, J., Leca, B., & Boxenbaum, E. 2009. How actors change institutions: Towards a theory of institutional entrepreneurship. *Academy of Management Annals*, 3(1): 64-107.

Baum, J.A.C., & Haveman, H.A. 1997. Love thy neighbour? Differentiation and agglomeration in the Manhattan hotel industry, 1898-1990. *Administrative Science Quarterly*, 42(2): 304-338.

Baum, J.A.C., & Ingram, P. 1998. Survival-enhancing learning in the Manhattan hotel industry, 1898-1980. *Management Science*, 44(7): 996-1016.

Baum, J.A.C., Li, S.X., & Usher, J.M. 2000. Making the next move: How experiential and vicarious learning shape the locations of chains' acquisitions. *Administrative Science Quarterly*, 45(4): 766-801.

Baum, J.A.C., & Oliver, C. 1996. Toward an institutional ecology of organizational founding. *Academy of Management Journal*, 39(5): 1378-1427.

Beatty, R.P., & Zajac, E.J. 1994. Managerial incentives, monitoring, and risk bearing: A study of executive compensation. *Administrative Science Quarterly*, 39(2): 313-335.

Beggs, J.J. 1995. The institutional environment: Implications for race and gender inequality in the U.S. labor market. *American Sociological Review*, 60(4): 612-633.

Belderbos, R., van Olffen, W., & Zou, J. 2011. Generic and specific social learning mechanisms in foreign entry location choice. *Strategic Management Journal*, 32(12): 1309-1330.

Benner, M.J., & Tripsas, M. 2012. The influence of prior industry affiliation on framing in nascent industries: The evolution of digital cameras. *Strategic Management Journal*, 33: 277-202.

Bercovitz, J., & Feldman, M. 2008. Academic entrepreneurs: Organizational change at the individual level. *Organization Science*, 19(1): 69-89.

Berrone, P., Cruz, C., Gomez-Mejia, L.R., & Larraza-Kintana, M. 2010. Socioeconomic wealth and corporate responses to institutional pressure: Do family-controlled firms pollute less? *Administrative Science Quarterly*, 55(1): 82-113.

Berrone, P., & Gomez-Mejia, L.R. 2009. Environmental performance and executive compensation: An integrated agency-institutional perspective. *Academy of Management Journal*, 52(1): 103-126.

Bjoerkman, I., Fey, C.F., & Park, H.J. 2007. Institutional theory and MNC subsidiary HRM practices: Evidence from a three-country study. *Journal of International Business Studies*, 38(3): 430-446.

Bjoerkman, I., & Lu, Y. 2001. Institutionalization and bargaining power explanations of HRM practices in international joint ventures - the case of Chinese-western joint ventures. *Organization Studies*, 22(3): 491-512.

Bjoerkman, I., Stahl, G.K., & Vaara, E. 2007. Cultural differences and capability transfer in cross-border acquisitions: The mediating roles of capability complementarity, absorptive capacity, and social integration. *Journal of International Business Studies*, 38(4): 658-672.

Boeker, W. 1997. Executive migration and strategic change: The effect of top manager movement on product-market entry. *Administrative Science Quarterly*, 42(2): 213-236.

Boiral, O. 2003. ISO 9000: Outside the iron cage. *Organization Science*, 14(6): 720-737.

Boiral, O. 2007. Corporate greening through ISO 14001: A rational myth? *Organization Science*, 18(1): 127-146.

Bolton, M.K. 1993. Organizational innovation and substandard performance: When is necessity the mother of innovation? *Organization Science*, 4(1): 57-75.

Brandenburger, A., & Polak, B. 1996. When managers cover their posteriors: Making the decisions the market wants to see. *Rand Journal of Economics*, 27(3): 523-541.

Briscoe, F., & Safford, S. 2008. The Nixon-in-China effect: Activism, imitation, and the institutionalization of contentious practices. *Administrative Science Quarterly*, 53(3): 460-491.

Bromiley, P., Miller, K.D., & Rau, D. 2001. Risk in strategic management research. In M.A. Hitt, R.E. Freeman & J.S. Harrison (Eds.), *The Blackwell handbook of strategic management*: 259-288. Malden, MA: Blackwell.

Brouthers, K.D. 2002. Institutional, cultural and transaction cost influences on entry mode choice and performance. *Journal of International Business Studies*, 33(2): 203-221.

Brouthers, K.D., & Brouthers, L.E. 2001. Explaining the national cultural distance paradox. *Journal of International Business Studies*, 32(1): 177-189.

Brouthers, K.D., & Brouthers, L.E. 2003. Why service and manufacturing entry mode choices differ: The influence of transaction cost factors, risk and trust. *Journal of Management Studies*, 40(5): 1179-1204.

Brouthers, K.D., & Hennart, J.-F. 2007. Boundaries of the firm: Insights form international entry mode research. *Journal of Management*, 33(3): 395-425.

Bruton, G.D., Ahlstrom, D., & Puky, T. 2009. Institutional differences and the development of entrepreneurial ventures: A comparison of the venture capital industries in Latin America and Asia. *Journal of International Business Studies*, 40(5): 762-778.

Bruton, G.D., Lohrke, F., & Lu, J.W. 2004. The evolving definition of what comprises international strategic management research. *Journal of International Management*, 10(3): 413-429.

Buchholtz, A.K., Ribbens, B.A., & Houle, I.T. 2003. The role of human capital in postacquisition CEO departure. *Academy of Management Journal*, 46(1): 506-514.

Buck, T., & Shahrim, A. 2005. The translation of corporate governance changes across national cultures: The case of Germany. *Journal of International Business Studies*, 36(1): 42-61.

Burns, L.R., & Wholey, D.R. 1993. Adoption and abandonment of matrix management programs: Effects of organizational characteristics and interorganizational networks. *Academy of Management Journal*, 36(1): 106-138.

Busenitz, L.W., Gomez, C., & Spencer, J.W. 2000. Country institutonal profiles: Unlocking entrepreneurial phenomena. *Academy of Management Journal*, 43(5): 994-1003.

Camerer, C.F. 1998. Can asset markets be manipulated? A field experiment with racetrack betting. *Journal of Political Economy*, 106(3): 457-482.

Cantwell, J., Dunning, J.H., & Lundan, S.M. 2010. An evolutionary approach to understanding international business activity: The co-evolution of mnes and the institutional environment. *Journal of International Business Studies*, 41(4): 567-86.

Capron, L., & Guillen, M. 2009. National corporate governance institutions and post-acquisition target reorganization. *Strategic Management Journal,* 30(8): 803-833.

Carberry, E.J., & King, B.G. 2012. Defensive practice adoption in the face of organizational stigma: Impression management and the diffusion of stock option expensing. *Journal of Management Studies*, 49(7): 1137-1167.

Carpenter, M.A., Pollock, T.G., & Leary, M.M. 2003. Testing a model of reasoned risk-taking: Governance, the experience of principals and agents, and global strategy in high-technology IPO firms. *Strategic Management Journal*, 24(9): 803-820.

Casile, M., & Davis-Blake, A. 2002. When accreditation standards change: Factors affecting differential responsiveness of public and private organizations. *Academy of Management Journal,* 45(1): 180-195.

Castel, P., & Friedberg, E.2010. Institutional change as an interactive process: The case of the modernization of the French cancer centers. *Organization Science*, 21(2): 311-330.

Chahine, S., & Tohme, N.S. 2009. Is CEO duality always negative? An exploration of CEO duality and ownership structure in the Arab IPO context. *Corporate Governance: An International Review,* 17(2): 123-141.

Chan, C.M., & Makino, S. 2007. Legitimacy and multi-level institutional environments: Implications for foreign subsidiary ownership structure. *Journal of International Business Studies*, 38(4): 621-638.

Chang, S.-J., & Rosenzweig, P.M. 2001. The choice of entry mode in sequential foreign direct investment. *Strategic Management Journal*, 22(8): 747-776.

Chatterjee, A., & Hambrick, D.C. 2007. It’s all about me: Narcissistic chief executive officers and their effects on company strategy and performance. *Administrative Science Quarterly,* 52(3): 351-386.

Chatterjee, A., & Hambrick, D.C. 2011. Executive personality, capability cues, and risk taking: How narcissistic CEOs react to their successes and stumbles. *Administrative Science Quarterly*, 56(2): 202-237.

Chatterjee, S., & Wernerfelt, B. 1991. The link between resources and type of diversification: Theory and evidence. *Strategic Management Journal*, 12(1): 33-48.

Chattopadhyay, P., Glick, W& Huber, G.P. 2001. Organizational actions in response to threats and opportunities. *Academy of Management Journal,* 44(5): 937-955.

Chrisman, J.J., & Patel, P.C. 2012. Variations in R&D investments of family and nonfamily firms: Behavioral agency and myopic loss aversion perspectives. *Academy of Management Journal*, 55(4): 976-997.

Christmann, P., & Taylor, G. 2006. Firm self-regulation through international certifiable standards: Determinants of symbolic versus substantive implementation. *Journal of International Business Studies*, 37(6): 863-878.

Chizema, A., & Kim, J. 2010. Outside Directors on Korean boards: Governance and institutions. *Journal of Management Studies*, 47(1): 109-129.

Chuang, Y.-T., Church, R., & Ophir, R. 2011. Taking sides: The interactive influences of institutional mechanisms on the adoption of same-sex partner health benefits by Fortune 500 corporations, 1990-2003. *Organization Science,* 22(1): 190-209.

Chung, C.-N., & Luo, X. 2008a. Human agents, contexts, and institutional change: The decline of family in the leadership of business groups. *Organization Science,* 19(1): 124-142.

Chung, C.-N., & Luo, X. 2008b. Institutional logics or agency costs: The influence of corporate governance models on business group restructuring in emerging economies. *Organization Science,* 19(5): 766-784.

Clegg, S. 2010. The state, power, and agency: Missing in action in institutional theory? *Journal of Management Inquiry*, 19(4): 4-13.

Coase, R.H. 1937. The nature of the firm. *Economica, New Series,* 4(16): 386-405.

Cohen, J., Cohen, P., West, S. G., & Aiken, L. S. 2003. *Applied multiple regression/correlation analysis for the behavioral sciences*. New York, NY: Routledge.

Creed, W.E.D., DeJordy, R., & Lok, J. 2010. Being the change: Resolving institutional contradiction through identity work. *Academy of Management Journal,* 53(6): 1336-1364.

Crilly, D., Zollo, M., & Hansen, M.T. 2012. Faking it or muddling through? Understanding decoupling in response to stakeholder pressures. *Academy of Management Journal*, 55(8): 1429-1448.

Crossland, C., & Hambrick, D.C. 2011. Differences in managerial discretion across countries: How nation-level institutions affect the degree to which CEOs matter. *Strategic Management Journal*, 32(8): 797-819.

Cui, L., & Jiang, F. 2012. State ownership effect on firms' FDI ownership decisions under institutional pressure: A study of Chinese outward-investing firms. *Journal of International Business Studies,* 43(3): 264-284.

Cyert, R.M., & March, J.G. 1963. A behavioral theory of the firm. Englewood Cliffs, NJ: Prentice-Hall.

Dacin, M.T., Goodstein, J., & Scott, W.R. 2002. Institutional theory and institutional change: Introduction to the special research forum. *Academy of Management Journal*, 45(1): 43-56.

Dacin, M.T., Munir, K., & Tracey, P. 2010. Formal dining at Cambridge colleges: Linking ritual performance and institutional maintenance. *Academy of Management Journal*, 53(6): 1393-1418.

Dacin, M.T., Ventresca, M.J., & Beal, B.D. 1999. The embeddedness of organizations: Dialogue & directions. *Journal of Management*, 25(3): 317-356.

Das, T.K., & Teng, B.-S. 1998. Between trust and control: Developing confidence in partner cooperation in alliances. *Academy of Management Review*, 23(3): 491-512.

Datta, D.K., Musteen, M., & Herrmann, P. 2009. Board characteristics, managerial incentives, and the choice between foreign acquisitions and international joint ventures. *Journal of Management*, 35(4): 928-953.

D'Aunno, T., Sutton, R.I., & Rice, R.H. 1991. Isomorphism and external support in conflicting institutional environments: A study of drug abuse treatment units. *Academy of Management Journal*, 34(3): 636-661.

Davis, G.F. 1991. Agents without principles? The spread of the poison pill through the intercorporate network. *Administrative Science Quarterly*, 36(4): 583-613.

Davis, G.F., & Greve, H.R. 1997. Corporate elite networks and governance changes in the 1980s. *American Journal of Sociology*, 103(1): 1-37.

Davis, G.F., & Mizruchi, M.S. 1999. The money center cannot hold: Commercial banks in the U.S. system of corporate governance. *Administrative Science Quarterly*, 44(2): 215-239.

Deephouse, D.L. 1996. Does isomorphism legitimate? *Academy of Management Journal*, 39(4): 1024-1039.

Deephouse, D.L. 1999. To be different, or to be the same? It's a question (and theory) of strategic balance. *Strategic Management Journal*, 20(2): 147-166.

Delios, A., & Beamish, P.W. 1999. Ownership strategy of Japanese firms: Transactional, institutional, and experience influences. *Strategic Management Journal*, 20(10): 915-933.

Delios, A., Gaur, A.S., & Makino, S. 2008. The timing of international expansion: Information, rivalry and imitation among Japanese firms, 1980-2002. *Journal of Management Studies*, 45(1): 169-195.

Delmestri, G. 2006. Streams of inconsistent institutional influences: Middle managers as carriers of multiple identities. *Human Relations*, 59(11): 1515-1541.

Delmestri, G., & Wezel, F.C. 2011. Breaking the wave: The contested legitimation of an alien organizational form. *Journal of International Business Studies*, 42(6): 828-852.

Dess, G.G., & Shaw, J.D. 2001. Voluntary turnover, social capital, and organizational performance. *Academy of Management Review*, 26(3): 446-456.

Devers, C. E., McNamara, G., Halelblian, J., & Yoder, M. E. 2013. Do they walk the talk? Gauging acquiring CEO and director confidence in the value creation potential of announced acquisitions. *Academy of Management Journal*, 56(6): 1679-1702.

Devers, C.E., McNamara, G., Wiseman, R.M., & Arrfelt, M. 2008. Moving closer to the action: Examining compensation design effects on firm risk. *Organization Science*, 19(4): 548-566.

Dieleman, M., & Sachs, W.M. 2008. Coevolution of institutions and corporations in emerging economies: How the Salim Group morphed into an institution of Suharto's Crony regime. *Journal of Management Studies*, 45(7): 1274-1300.

DiMaggio, P.J. 1988. Interest and agency in institutional theory. In L.G. Zucker (Ed.), *Institutional patterns and organizations*. Cambridge, MA: Ballinger.

DiMaggio, P.J., & Powell, W.W. 1983. The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review,* 48(2): 147-160.

Dobrev, S.D. 2007. Competing in the looking-glass market: Imitation, resources, and crowding. *Strategic Management Journal*, 28(13): 1267-1289.

Dokko, G., & Gaba, V. 2012. Venturing into new territory: Career experiences of corporate venture capital managers and practice variation. *Academy of Management Journal*, 55(3): 563-583.

Dorado, S. 2005. Institutional entrepreneurship, partaking, and convening. *Organization Studies*, 26(3): 385-414.

Dowling, J., & Pfeffer, J. 1975. Organizational legitimacy: Social values and organizational behavior. *Pacific Sociological Review*, 18(1): 122-136.

Downey, H.K., Hellriegel, D., & Slocum, J.W. 1975. Environmental uncertainty: The construct and its application. *Administrative Science Quarterly*, 20(4): 613-629.

Dunn, M.B., & Jones, C. 2010. Institutional logics and institutional pluralism: The contestation of care and science logics in medical education, 1967 -2005. *Administrative Science Quarterly*, 55: 114-149.

Durand, R., & Jourdan, J. 2012. Jules or Jim: Alternative conformity to minority logics. *Academy of Management Journal*, 55(6): 1295-1315.

Earle, J.S., Spicer, A., & Peter, K.S. 2010. The normalization of deviant organizational practices: Wage arrears in Russia, 1991-98. *Academy of Management Journal*, 53(2): 218-237.

Edelman, L.B. 1992. Legal ambiguity and symbolic structures: Organizational mediation of civil rights law. *American Journal of Sociology*, 97(6): 1531-1576.

Eisenhardt, K.M. 1988. Agency- and institutional-theory explanations: The case of retail sales compensation. *Academy of Management Journal*, 31(3): 488-511.

Eisenhardt, K.M. 1989. Agency theory: An assessment and review. *Academy of Management Review*, 14(1): 57-74.

Ekeledo, I., & Sivakumar, K. 2004. International market entry mode strategies of manufacturing and service firms. *International Market Review*, 21(1): 68-101.

Elsbach, K.D. 1994. Managing organizational legitimacy in the California cattle industry: The construction and effectiveness of verbal accounts. *Administrative Science Quarterly*, 39(1): 57-88.

Elsbach, K.D., & Sutton, R.I. 1992. Acquiring organizational legitimacy through illegitimate actions: A marriage of institutional and impression management theories. *Academy of Management Journal*, 35(4): 699-738.

Ensley, M.D., & Hmieleski, K.M. 2005. A comparative study of new venture top management team composition, dynamics and performance between university-based and independent start-ups. *Research Policy*, 34(7): 1091-1105.

Erramilli, M.K., & Rao, C.P. 1993. Service firms' international entry-mode choice: A modified transaction-cost analysis approach. *Journal of Market*, 57(3): 19-38.

Estrin, S., Baghdasaryan, D., & Meyer, K.E. 2009. The impact of institutional and human resource distance on international entry strategies. *Journal of Management Studies*, 46(7): 1171-1196.

Etzion, D., & Ferraro, F. 2010. The role of analogy in the institutionalization of sustainability reporting. *Organization Science*, 21(5): 1092-1107.

Faccio, M., Marchica, M.-T., & Mura, R. CEO gender, corporate risk-taking, and the efficiency of capital allocation. *Working Paper*.

Fadiman, J.A. 1986. A traveler's guide to gifts and bribes. *Harvard Business Review*, 64(4): 122-136.

Fama, E.F. 1980. Agency problems and the theory of the firm. *Journal of Political Economy*, 88(2): 288-307.

Fama, E.F., & Jensen, M.C. 1983. Separation of ownership and control. *Journal of Law and Economics*, 26(2): 301-325.

Farjoun, M. 2002. The dialectics of institutional development in emerging and turbulent fields: The history of pricing conventions in the on-line database industry. *Academy of Management Journal*, 45(5): 848-874.

Feinberg, S.E., & Gupta, A.K. 2009. MNC Subsidiaries and country risk: Internalization as a safeguard against weak external institutions. *Academy of Management Journal*, 52(3): 381-399.

Fennell, M.L., & Alexander, J.A. 1987. Organizational boundary spanning in institutionalized environments. *Academy of Management Journal*, 30(3): 456-476.

Ferner, A., Almond, P., & Colling, T. 2005. Institutional Theory and the cross-national transfer of employment policy: The case of 'workforce diversity' in US multinationals. *Journal of International Business Studies*, 36(3): 301-321.

Fernhaber, S.A., & Li, D. 2010. The impact of interorganizational imitation on new venture international entry and performance. *Entrepreneurship: Theory & Practice*, 34(1): 1-30.

Filatotchev, I., Strange, R., Piesse, J., & Lien, Y.-C. 2007. FDI by firms from newly industrialized economies in emerging markets: Corporate governance, entry mode and location. *Journal of International Business Studies*, 38(4): 556-572.

Finkelstein, S., & Boyd, B.K. 1998. How much does the CEO matter? The role of managerial discretion in the setting of CEO compensation. *Academy of Management Journal*, 41(2): 179-199.

Finkelstein, S., & Hambrick, D.C. 1990. Top-management-team tenure and organizational outcomes: The moderating role of managerial discretion. *Administrative Science Quarterly*, 35(3): 484-503.

Finkelstein, S., Hambrick, D.C., & Cannella, A.A. 2009. *Strategic leadership: Theory and research on executives, top management teams, and boards*. New York, NY: Oxford University Press.

Fiss, P.C., & Zajac, E.J. 2004. The diffusion of ideas over contested terrain: The (non)adoption of a shareholder value orientation among German firms. *Administrative Science Quarterly*, 49(4): 501-534.

Fiss, P., & Zajac, E.J. 2006. The symbolic management of strategic change: Sensegiving via framing and decoupling. *Academy of Management Journal*, 49(6): 1173-1193.

Flier, B., van den Bosch, F.A.J., & Volberda, H.W. Co-evolution in strategic renewal behaviour of British, Dutch and French financial incumbents: Interaction of environmental selection, institutional effects and managerial intentionality. *Journal of Management Studies*, 40(8): 2163-2187.

Fligstein, N. 1985. The spread of the multidivisional form among large firms, 1919-1979. *American Sociological Association*, 50(3): 377-391.

Fligstein, N. 1997. Social skill and institutional theory. *American Behavioral Scientist*, 40(4): 397-405.

Fligstein, N. 2001. Social skill and the theory of fields. *Sociological Theory*, 19(2): 105-125.

Friedland, R., & Alford, R.R. 1991. Bringing society back in: Symbols, practices, and institutional contradictions. In W.W. Powell & P.J. DiMaggio (Eds.), *The new institutionalism in organizational analysis*: 232–266. Chicago: University of Chicago Press.

Galaskiewicz, J., & Wasserman, S. 1989. Mimetic processes within an interorganizational field: An empirical test. *Administrative Science Quarterly*, 34(3): 454-479.

Galvin, T.L. 2002. Examining institutional change: Evidence from the founding dynamics of U.S. health care interest associations. *Academy of Management Journal*, 45(4): 673-696.

Garcia-Pont, C., & Nohria, N. 2002. Local versus global mimetism: The dynamics of alliance formation in the automobile industry. *Strategic Management Journal*, 23(4): 307-321.

Garud, R., Jain, S., & Kumaraswamy, A. 2002. Institutional entrepreneurship in the sponsorship of common technology standards: The case of Sun Microsystems and

Java. *Academy of Management Journal*, 45(1): 196-214.

Gatignon, H., & Anderson, E. 1988. The multinational corporation's degree of control over foreign subsidiaries: An empirical test of a transaction cost explanation. *Journal of Law, Economics, & Organization*, 4(2): 305-336.

Gaur, A.S., & Lu, J.W. 2007. Ownership strategies and survival of foreign subsidiaries: Impacts of institutional distance and experience. *Journal of Management*, 33(1): 84-110.

Gentzkow, M., & Shapiro, J.M. 2006. Media bias and reputation. *Journal of Political Economy*, 114(2): 280-316.

George, E., Chattopadhyay, P., Sitkin, S.B., & Barden, J. 2006. Cognitive underpinnings of institutional persistence and change: A framing perspective. *Academy of Management Review*, 31(2): 347-365.

Geppert, M., Williams, K., & Matten, D. 2003. The social construction of contextual rationalities in MNCs: An Anglo-German comparison of subsidiary choice. *Journal of Management Studies*, 40(3): 617-641.

Ghemawat, P. 2001. Distance still matters: The hard reality of global expansion. *Harvard Business Review*, 79(8): 137-147.

Ghoshal, S. 1988. Environmental scanning in Korean firms: Organizational isomorphism in action. *Journal of International Business Studies*, 19(1): 69-86.

Gibbons, D.E. 2004. Network structure and innovation ambiguity effects on diffusion in dynamic organizational fields. *Academy of Management Journal*, 47(6): 938-951.

Gimeno, J., Hoskisson, R.E., Beal, B.D., & Wan, W.P. 2005. Explaining the clustering of international expansion moves: A critical test in the U.S. telecommunications industry. *Academy of Management Journal*, 48(2): 297-319.

Glynn, M.A. 2008. Configuring the field of play: How hosting the Olympic Games impacts civic community. Journal of Management Studies, 45(6): 1117-1146.

Gomes-Casseres, B. 1989. Ownership structures of foreign subsidiaries: Theory and evidence. *Journal of Economic Behavior and Organization*, 11(1): 1-25.

Gomes-Casseres, B. 1990. Firm ownership preferences and host government restrictions: An integrated approach. *Journal of International Business Studies*, 21(1): 1-22.

Gomez-Mejia, L.R., Haynes, K.T., Nunes-Nickel, M., Jacobson, K.J.L., & Moyano-Fuentes, J. 2007. Socioeconomic wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. *Administrative Science Quarterly*, 52(1): 106-137.

Gomez-Mejia, L.R., & Wiseman, R.M. 1997. Reframing executive compensation: An assessment and outlook. *Journal of Management*, 23(3): 291-374.

Goodrick, E. & Reay, T. 2010. Florence nightingale endures: Legitimizing a new professional role identity. *Journal of Management Studies*, 47(1): 55-84.

Goodrick, E., & Salancik, G.R. 1996. Organizational discretion in responding to institutional practices: hospitals and caesarean births. *Administrative Science Quarterly*, 41(1): 1-28.

Goodstein, J.D. 1994. Institutional pressures and strategic responsiveness: Employer involvement in work-family. *Academy of Management Journal*, 37(2): 350-382.

Green, S.E., Li, Y., & Nohria, N. 2009. Suspended in self-spun webs of significance: A rhetorical model of institutionalization and institutionally embedded agency. *Academy of Management Journal*, 52(1): 11-36.

Greene, W. 2004. The behavior of the maximum likelihood estimator of limited dependent variable models in the presence of fixed effects. *Econometrics Journal*, 7(1): 98–119.

Greenwood, R., Diaz, A.M., Li, S.X., & Lorente, J.C. 2010. The multiplicity of institutional logics and the heterogeneity of organizational responses. *Organization Science*, 21(2): 521-539.

Greenwood, R., & Meyer, R.E. 2008. Influencing ideas: A celebration of DiMaggio and Powell (1983). *Journal of Management Inquiry,* 17(4): 258-264.

Greenwood, R., Raynard, M., Kodeih, F., Micelotta, E.R., & Lounsbury, M. 2011. Institutional complexity and organizational responses. *Academy of Management Annals*, 5(1): 317-371.

Greenwood, R., & Suddaby, R. 2006. Institutional entrepreneurship in mature fields: The big five accounting firms. *Academy of Management Journal*, 49(1): 27-48.

Greenwood, R., Suddaby, R., & Hinings, C.R. 2002. Theorizing change: The role of professional associations in the transformation of institutionalized fields. *Academy of Management Journal*, 45(1): 58-80.

Greve, H.R. 1995. Jumping ship: The diffusion of strategy abandonment. *Administrative Science Quarterly*, 40(3): 444-473.

Greve, H.R. 1996. Patterns of competition: The diffusion of a market position in radio broadcasting. *Administrative Science Quarterly*, 41(1): 29-60.

Greve, H.R. 1998. Managerial cognition and the mimetic adoption of market positions: What you see is what you do. *Strategic Management Journal*, 19(10): 967-988.

Greve, H.R. 2000. Market niche entry decisions: competition, learning, and strategy in Tokyo banking, 1894-1936. *Academy of Management Journal*, 43(5): 816-836.

Greve, H.R. 2002. An ecological theory of spatial evolution: Local density dependence in Tokyo banking, 1894-1936. *Social Forces*, 80(March): 847-879.

Greve, H.R. 2011. Fast and expensive: The diffusion of a disappointing innovation. *Strategic Management Journal*, 32(9): 949-968.

Grimm, C.M., & Smith, K.G. 1991. Management and organizational change: A note on the railroad industry. *Strategic Management Journal*, 12(7): 557-562.

Guillen, M.F. 2002. Structural inertia, imitation, and foreign expansion: South Korean firms and business groups in China, 1987-95. *Academy of Management Journal*, 45(3): 509-525.

Guillen, M.F. 2003. Experience, imitation, and the sequence of foreign entry: Wholly owned and joint-venture manufacturing by South Korean firms and business groups in China, 1987-1995. *Journal of International Business Studies*, 34(2): 185-198.

Gulati, R. 1995. Social structure and alliance formation patterns: A longitudinal analysis. *Administrative Science Quarterly*, 40(4): 619-652.

Guler, I., Guillen, M.F., & Macpherson, J.M. 2002. Global competition, institutions, and the diffusion of organizational practices: The international spread of ISO 9000 quality certificates. *Administrative Science Quarterly*, 47(2): 207-232.

Gunawan, J., & Rose, E.L. 2014. Absorptive capacity development in Indonesian exporting firms: How do institutions matter? *International Business Review*, 23(1): 45-54.

Haas, M.R., & Park, S. 2010. To share or not to share? Professional norms, reference groups, and information withholding among life scientists. *Organization Science*, 21(4): 873-891.

Haleblian, J., Devers, C.E., McNamara, G., Carpenter, M.A., & Davison, R.B. 2009. Taking stock of what we know about mergers and acquisitions: A review and research agenda. *Journal of Management*, 35(3): 469-502.

Haleblian, J., McNamara, G., Kolev, K., & Dykes, B.J. 2012. Exploring firm characteristics that differentiate leaders from followers in industry merger waves: A competitive dynamic perspective. *Strategic Management Journal*, 33(9): 1037-1052.

Hambrick, D.C., & Finkelstein, S. 1987. Managerial discretion: A bridge between polar views of organizations. In L.L. Cummings & B.M. Staw (Eds.), *Research in organizational behavior, vol. 9*: 369-406. Greenwich, CT: JAI Press.

Hambrick, D.C., & Fukutomi, G.D.S. 1991. The seasons of a CEO's tenure. *Academy of Management Review*, 16(4): 719-742.

Hambrick, D.C., & Mason, P.A. 1984. Upper echelons: The organization as a reflection of its top managers. *Academy of Management Review*, 9(2): 193-206.

Han, S.-K. 1994. Mimetic isomorphism and its effect on the audit services market. *Social Forces*, 73(2): 637-664.

Hannan, M.T., & Freeman, J. 1977. The population ecology of organizations. *American Journal of Sociology*, 82(5): 929-964.

Hargadon, A.B., & Douglas, Y. 2001. When innovations meet institutions: Edison and the design of the electric light. *Administrative Science Quarterly*, 46(3): 476-501.

Haunschild, P.R. 1993. Interorganizational imitation: The impact of interlocks on corporate acquisition activity. *Administrative Science Quarterly*, 38(4): 564-592.

Haunschild, P.R. 1994. How much is that company worth? Interorganizational relationships, uncertainty, and acquisition premiums. *Administrative Science Quarterly*, 39(3): 391-411.

Haunschild, P.R., & Miner, A.S. 1997. Modes of interorganizational imitation: The effects of outcome salience and uncertainty. *Administrative Science Quarterly,* 42(3): 472-500.

Haveman, H.A. 1993. Follow the leader: Mimetic isomorphism and entry into new markets. *Administrative Science Quarterly*, 38(4): 593-627.

Haveman, H.A., Rao, H., & Paruchuri, S. 2007. The winds of change: The progressive movement and the bureaucratization of thrift. *American Sociology Review*, 72(1): 117-142.

Haxhi, I., & van Ees, H. 2010. Explaining diversity in the worldwide diffusion of codes of good governance. *Journal of International Business Studies,* 41(4): 710-726.

Hayward, M.L.A., & Hambrick, D.C. 1997. Explaining the premiums paid for large acquisitions: Evidence of CEO hubris. *Administrative Science Quarterly*, 42(1): 103-127.

Hayward, M.L.A., Rindova, V.P., & Pollock, T.G. 2004. Believing one's own press: The causes and consequences of CEO celebrity. *Strategic Management Journal*, 25(7): 637-653.

Helms, W.S., Oliver, C., & Webb, K. 2012. Antecedents of settlement on a new institutional practice: Negotiation of the ISO 26000 standard on social responsibility. *Academy of Management Journal*, 55(5): 1120-1145.

Henderson, J., & Cool, K. 2003. Corporate governance, investment bandwagons and overcapacity: An analysis of the worldwide petrochemical industry, 1975-95. *Strategic Management Journal*, 24(4): 349-373.

Henisz, W.J., & Delios, A. 2001. Uncertainty, imitation, and plant location: Japanese multinational corporations, 1990-1996. *Administrative Science Quarterly,* 46(3): 443-475.

Hennart, J.-F. 1988. A transaction cost theory of equity joint ventures. *Strategic Management Journal*, 9(4): 361-374.

Hennart, J.-F. 1991. The transaction costs theory of joint ventures: An empirical study of Japanese subsidiaries in the United States. *Management Science*, 37(4): 483-497.

Hennart, J.-F., & Larimo, J. 1998. The impact of culture on the strategy of multinational enterprise: Does national origin affect ownership decisions? *Journal of International Business Studies*, 29(3): 515-538.

Hennart, J.-F., & Reddy, S. 1997. The choice between mergers/acquisitions and joint ventures: The case of Japanese investors in the United States. *Strategic Management Journal*, 18(1): 1-12.

Herrmann, P., & Datta, D.K. 2002. CEO successor characteristics and the choice of foreign market entry mode: An empirical study. *Journal of International Business*

Studies, 33(3): 551-569.

Herrmann, P., & Datta, D.K. 2006. CEO experiences: Effects on the choice of FDI entry mode. *Journal of Management Studies,* 43(4): 755-778.

Heugens, P.P.M.A.R., & Lander, M.W. 2009. Structure! Agency! (and other quarrels): A meta-analysis of institutional theories of organization. *Academy of Management Journal*, 52(1): 61-85.

Hiatt, S.R., Sine, W.D., & Tolbert, P.S. 2009. From Pabst to Pepsi: The deinstitutionalization of social practices and the creation of entrepreneurial opportunities. *Administrative Science Quarterly*, 54: 635-667.

Hillman, A.J., & Wan, W.P. 2005. The determinants of MNE subsidiaries' political strategies: Evidence of institutional duality. *Journal of International Business Studies*, 36(3): 322-340.

Hirsch, P.M., & Lounsbury, M. 1997. Ending the family quarrel: Toward a reconciliation of "old" and "new" institutionalism. *American Behavioral Scientist*, 40(4): 406-418.

Hitt, M.A., Ahlstrom, D., Dacin, M.T., Levitas, E., & Svobodina, L. 2004. The institutional effects of strategic alliance partner selection in transition economies: China vs. Russia. *Organization Science,* 15(2): 173-185.

Holm, P. 1995. The dynamics of institutionalization: Transformation processes in Norwegian fisheries. *Administrative Science Quarterly*, 40(3): 398-422.

Holmes, R.M., Miller, T., Hitt, M.A., & Salmador, M.P. 2013. The interrelationships among informal institutions, formal institutions, and inward foreign direct investment. *Journal of Management*, 39(2): 531-566.

Holmstrom, B. 1979. Moral hazard and observability. *Bell Journal of Economics*, 10(1): 74-91.

Holthausen, R.W., Larcker, D.F., & Sloan, R.G. 1995. Annual bonus schemes and the manipulation of earnings. *Journal of Accounting and Economics*, 19(1): 29-74.

Honig, B., & Karlsson, T. 2004. Institutional forces and the written business plan. *Journal of Management*, 30(1): 29-48.

Hoskisson, R.E., Hitt, M.A., & Hill, C.W.L. 1991. Managerial risk taking in diversified firms: An evolutionary perspective. *Organization Science,* 2(3): 296-314.

Huddart, S., & Lang, M. 1996. Employee stock option exercises an empirical analysis. *Journal of Accounting and Economics*, 21(1): 5-43.

Ingram, P., & Simons, T. 1995. Institutional and resource dependence determinants of responsiveness to work-family issues. *Academy of Management Journal*, 38(5): 1466-1482.

Jackson, G., & Deeg, R. 2008. Comparing capitalisms: Understanding institutional diversity and its implications for international business. *Journal of International Business Studies*, 39(4): 540-561.

Jensen, M.C., & Meckling, W.H. 1976. Theory of the firm: Managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*, 3(4): 305-360.

Jensen, M.C., & Zajac, E.J. 2004. Corporate elites and corporate strategy: How demographic preferences and structural position shape the scope of the firm. *Strategic Management Journal*, 25(6): 507-524.

Jensen, R., & Szulanski, G. 2004. Stickiness and the adaptation of organizational practices in cross-border knowledge transfers. *Journal of International Business Studies*, 35(6): 508-523.

Johanson, J., & Wiedersheim-Paul, F. 1975. The internationalization of the firm – four Swedish cases. *Journal of Management Studies*, 12(3): 305-323.

Johanson, J., & Vahlne, J.-E. 1977. The internationalization process of the firm – a model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8(1): 23-32.

Johnston, W. B. 1991. Global workforce 2000: The new world labor market. *Harvard Business Review*, 69(2): 115-127.

Jones, C., Maoret, M., Massa, F.G., & Svejenova, S. 2012. Rebels with a cause: Formation, contestation, and expansion of the de novo category "modern architecture," 1870-1975. *Organization Science*, 23(6): 1523-1545.

Jonsson, S. 2009. Refraining from imitation: Professional resistance and limited diffusion in a financial market. *Organization Science*, 20(1): 172-186.

Jonsson, S., Greve, H.R., & Fujiwara-Greve, T. 2009. Undeserved loss: The spread of legitimacy loss to innocent organizations in response to reported corporate deviance. *Administrative Science Quarterly*, 54(2): 195-228.

Jonsson, S., & Regner, P. 2009. Normative barriers to imitation: Social complexity of core competences in a mutual fund industry. *Strategic Management Journal*, 30(5): 517-536.

Judge, G. G., Griffiths, W. E., Hill, R. C., & Lee, T.-C. 1985. *The theory and practice of econometrics*. New York, NY: Wiley.

Judge, W. 2009. Toward a global theory of corporate governance. *Corporate Governance: An International Review*, 17(2): 3-4.

Julian, S.D., Ofori-Dankwa, J.C., & Justis, R.T. 2008. Understanding strategic responses to interest group pressures. *Strategic Management Journal*, 29(9): 963-984.

Kahneman, D., & Tversky, A. 1979. Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2): 263-292.

Kang, S.-C., & Yanadori, Y. 2011. Adoption and coverage of performance-related pay during institutional change: An integration of institutional and agency theories. *Journal of Management Studies*, 48(8): 1837-1865.

Kanter, R.M. 1972. *Commitment and community*. Cambridge, MA: Harvard University Press.

Kaufman, D., Kraay, A., & Mastruzzi, M. 2010. The worldwide governance indicators: A summary of methodology, data and analytical issues. *World Bank Policy Research* working paper 5430, Washington, DC: World Bank. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1682130.

Keats, B.W., & Hitt, M.A. 1988. A causal model of linkages among environmental dimensions, macro organizational characteristics, and performance. *Academy of Management Journal*, 31(3): 570–598.

Kellogg, K.C. 2012. Making the cut: Using status-based countertactics to block social movement implementation and microinstitutional change in surgery. *Organization Science*, 23(6): 1546-1570.

Kennedy, M.T., & Fiss, P.C. 2009. Institutionalization, framing, and diffusion: The logic of TQM adoption and implementation decisions among U.S. hospitals. *Academy of Management Journal*, 52(5): 879-918.

Kim, J.-Y., & Miner, A.S. 2007. Vicarious learning from the failure and near-failures of others: Evidence from the U.S. commercial banking industry. *Academy of Management Journal*, 50(2): 687-714.

Kim, T.-Y., Shin, D., Oh, H., & Jeong, Y.-C. 2007. Inside the iron cage: Organizational political dynamics and institutional changes in presidential selection systems in Korean universities, 1985-2002. *Administrative Science Quarterly*, 52(2): 286-323.

Kim, W.C., & Hwang, P. 1992. Global strategy and multinationals' entry mode choice. *Journal of International Business Studies*, 23(1): 29-53.

King, D.R., Dalton, D.R., Daily, C.M., & Covin, J.G. 2004. Meta-analyses of post-acquisition performance: Indications of unidentified moderators. *Strategic Management Journal*, 25(2): 187-200.

Kogut, B., & Singh, H. 1988. The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19(3): 411-432.

Kogut, B., Walker, G., & Anand, J. 2002. Agency and institutions: National divergences in diversification behavior. *Organization Science*, 13(2): 162-178.

Kostova, T. 1999. Transnational transfer of strategic organizational practices: A contextual perspective. *Academy of Management Review*, 24(2): 308-324.

Kostova, T., & Roth, K. 2002. Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects. *Academy of Management Journal*, 45(1): 215-233.

Kostova, T., Roth, K., & Dacin, M.T. 2008. Institutional theory in the study of multinational corporations: A critique and new directions. *Academy of Management Review*, 33(4): 994-1006.

Kostova, T., & Zaheer, S. 1999. Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. *Academy of Management Review*, 24(1): 64-81.

Kraatz, M.S. 1998. Learning by association? Interorganizational networks and adaptation to environmental change. *Academy of Management Journal*, 41(6): 621-643.

Kraatz, M.S., & Moore, J.H. 2002. Executive migration and institutional change. *Academy of Management Journal*, 45(1): 120-143.

Kuilman, J.G., & Li, J. 2009. Grades of membership and legitimacy spillovers: Foreign banks in Shanghai, 1847-1935. *Academy of Management Journal*, 52(2): 229-245.

Kwok, C.C.Y., & Tadesse, S. 2006. The MNC as an agent of change for host-country institutions: FDI and corruption. *Journal of International Business Studies*, 37(6): 767-785.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 2000. Investor protection and corporate governance. *Journal of Financial Economics*, 58(1-2): 3-27.

Lamberg, J.-A., & Pajunen, K. 2010. Agency, institutional change, and continuity: The case of the Finnish civil war. *Journal of Management Studies*, 47(5): 814-836.

Lambert, R.A., Lanen, W.N., & Larcker, D.F. 1989. Executive stock option plans and corporate dividend policy. *Journal of Financial and Quantitative Analysis*, 24(4): 409-425.

Larraza-Kintana, M., Wiseman, R.M., Gomez-Mejia, L.R., & Welbourne, T.M. 2007. Disentangling compensation and employment risks using behavioral agency model. *Strategic Management Journal*, 28(10): 1001-1019.

Lavie, D., & Miller, S.R. 2008. Alliance portfolio internationalization and firm performance. *Organization Science*, 19(4): 623-646.

Lawrence, T.B. 1999. Institutional strategy. *Journal of Management*, 25(2): 161-188.

Lawrence, T.B., Hardy, C., & Phillips, N. 2002. Institutional effects of interorganizational collaboration: The emergence of proto-institutions. *Academy of Management Journal*, 45(1): 281-290.

Leblebici, H., Salancik, G.R., Copay, A., & King, T. 1991. Institutional change and the transformation of interorganizational fields: An organizational history of the U.S. radio broadcasting industry. *Administrative Science Quarterly*, 36(3): 333-363.

Lee, H., Smith, K.G., Grimm, C.M., & Schomburg, A. 2000. Timing, order and durability of new product advantages with imitation. *Strategic Management Journal*, 21(1): 23-30.

Lee, K., & Pennings, J.M. 2002. Mimicry and the market: Adoption of a new organizational form. *Academy of Management Journal*, 45(1): 144-162.

Lee, P.M., & James, E.H. 2007. She'-e-os: Gender effects and investor reactions to the announcements of top executive appointments. *Strategic Management Journal*, 28(3): 227-241.

Lepoutre, J.M.W.N., & Valente, M. 2012. Fools breaking out: The role of symbolic and material immunity in explaining institutional nonconformity. *Academy of Management Journal*, 55(2): 285-313.

Levitt, B., & March, J.G. 1988. Organizational learning. *Annual Review of Sociology*, 14: 319-340.

Levitt, B., & Nass, C. 1989. The lid on the garbage can: Institutional constraints on decision making in the technical core of college-text publishers. *Administrative Science Quarterly*, 34(2): 190-207.

Li, J., Yang, J.Y., & Yue, D.R. 2007. Identity, community, and audience: How wholly owned foreign subsidiaries gain legitimacy in China. *Academy of Management Journal*, 50(1): 175-190.

Liang, H., Saraf, N., Hu, Q., & Xue, Y. 2007. Assimilation of enterprise systems: The effect of institutional pressures and the mediating role of top management. *MIS Quarterly*, 31(1): 59-87.

Lieberman, M.B., & Asaba, S. 2006. Why do firms imitate each other? *Academy of Management Review,* 31(2): 366-385.

Lieberman, M.B., & Montgomery, D.B. 1988. First-mover advantages. *Strategic Management Journal*, 9(S1): 41-58.

Lim, E.N.K., Lubatkin, M.H., & Wiseman, R.M. 2010. A family firm variant of the behavioral agency theory. *Strategic Entrepreneurship Journal*, 4(3): 197-211.

Lin, Z., Peng, M.W., Yang, H., & Sun, S.L. 2009. How do networks and learning drive M&As? An institutional comparison between China and the United States. *Strategic Management Journal*, 30(10): 1113-1132.

Lok, J. 2010. Institutional logics as identity projects. *Academy of Management Journal*, 53(6): 1305-1335.

Lounsbury, M. 2001. Institutional sources of practice variation: Staffing college and university recycling programs. *Administrative Science Quarterly*, 46(1): 29-56.

Lounsbury, M. 2002. Institutional transformation and status mobility: The professionalization of the field of finance. *Academy of Management Journal*, 45(1): 255-266.

Lounsbury, M. 2007. A tale of two cities: Competing logics and practice variation in the professionalizing of mutual funds. *Academy of Management Journal*, 50(2): 289-307.

Lounsbury, M., & Glynn, M.A. 2001. Cultural entrepreneurship: Stories, legitimacy, and the acquisition of resources. *Strategic Management Journal*, 22(6-7): 545-564.

Love, E.G., & Kraatz, M. 2009. Character, conformity, or the bottom line? How and why downsizing affected corporate reputation. *Academy of Management Journal*, 52(3): 314-335.

Lu, J.W. 2002. Intra- and inter-organizational imitative behavior: Institutional influences on Japanese firms' entry mode choice. *Journal of International Business Studies,* 33(1): 19-37.

Lu, J.W., & Xu, D. 2006. Growth and survival of international joint ventures: An external-internal legitimacy perspective. *Journal of Management*, 32(3): 426-488.

Lubatkin, M., Lane, P.J., Collin, S., & Very, P. 2005. Origins of corporate governance in the USA, Sweden and France. *Organization Studies,* 26(6): 867-888.

Lubatkin, M., Lane, P.J., Collin, S., & Very, P. 2007. An embeddedness framing of governance and opportunism: Towards a cross-nationally accommodating theory of agency. *Journal of Organizational Behavior*, 28(1): 43-58.

MacCrimmon, K.R., & Wehrung, D.A. 1990. Characteristics of risk taking executives. *Management Science*, 36(4): 422-435.

MacLean, T.L., & Behnam, M. 2010. The dangers of decoupling: The relationship between compliance programs, legitimacy perceptions, and institutionalized misconduct. *Academy of Management Journal*, 53(6): 1499-1520.

Maguire, S., Hardy, C., & Lawrence, T.B. 2004. Institutional entrepreneurship in emerging fields: HIV/AIDS treatment advocacy in Canada. *Academy of Management Journal*, 47(5): 657-679.

Marcel, J.J., Barr, P.S., & Duhaime, I.M. 2010. The influence of executive cognition on competitive dynamics. *Strategic Management Journal*, 32(2): 115-138.

Marquis, C., & Huang, Z. 2010. Acquisitions as exaptation: The legacy of founding institutions in the U.S. commercial banking industry. *Academy of Management Journal*, 53(6): 1441-1473.

Marquis, C., & Lounsbury, M. 2007. Viva la résistance: Competing logics and the consolidation of U.S. community banking. *Academy of Management Journal*, 50(4): 799-820.

Martin, A.D., Nishikawa, T., & Williams, M.A. 2009. CEO gender: Effects on valuation and risk. *Quarterly Journal of Finance and Accounting*, 48(3): 23-40.

Martin, G.P., Gomez-Mejia, L.R., & Wiseman, R.M. 2013. Executive stock options as mixed gambles: Revisiting the behavioral agency model. *Academy of Management Journal*, 56(2): 451-472.

Mayer, M., & Whittington, R. 2004. Economics, politics and nations: Resistance to the multidivisional form in France, Germany and the United Kingdom, 1983–1993. *Journal of Management Studies*, 41(7): 1057-1082.

McDermott, G.A., Corredoira, R.A., & Kruse, G. 2009. Public-private institutions as catalysts of upgrading in emerging market societies. *Academy of Management Journal*, 52(6): 1270-1296.

McInerney, P.-B. 2008. Showdown at Kykuit: Field-configuring events as loci for conventionalizing accounts. *Journal of Management Studies*, 45(6): 1089-1116.

McNamara, G.M., Haleblian, J., & Dykes, B.J. 2008. The performance implications of participating in an acquisition wave: Early mover advantages, bandwagon effects, and the moderating influence of industry characteristics and acquirer tactics. *Academy of Management Journal*, 51(1): 113-130.

Merton, R.K. 1968. *Social theory and social structure*. New York, NY: Free Press.

Meyer, J.W., & Rowan, B. 1977. Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology,* 88(2): 340-363.

Meyer, K.E., Estrin, S., Bhaumik, S.K., & Peng, M.W. 2009. Institutions, resources, and entry strategies in emerging economies. *Strategic Management Journal*, 30(1): 61-80.

Mezias, S.J. 1990. An institutional model of organizational practice: Financial reporting at the Fortune 200. *Administrative Science Quarterly*, 35(3): 431-457.

Mihalache, O.R., Jansen, J.J.J.P., van den Bosch, F.A.J., & Volberda, H.W. 2012. Offshoring and firm innovation: The moderating role of top management team attributes. *Strategic Management Journal*, 33(13): 1480-1498.

Miller, D. 1991. Stale in the saddle: CEO tenure and the match between organization and environment. *Management Science*, 37(1): 34-52.

Miller, D., Le Breton-Miller, I., & Lester, R.H. Family and lone founder ownership and strategic behavior: Social context, identity, and institutional logics. *Journal of Management Studies*, 48(1): 1-25.

Misangyi, V.F., Weaver, G.R., & Elms, H. 2008. Ending corruption: The interplay among institutional logics, resources, and institutional entrepreneurs. *Academy of Management Review*, 33(3): 750-770.

Mizruchi, M.S., & Fein, L.C. 1999. The social construction of organizational knowledge: A study of the uses of coercive, mimetic, and normative isomorphism. *Administrative Science Quarterly*, 44(4): 653-683.

Morck, R., & Yeung, B. 2003. Agency problems in large family business groups. *Entrepreneurship: Theory & Practice*, 27(4): 367-382.

Muehlfeld, K., Sahib, P.R., & van Witteloostuijn, A. 2012. A contextual theory of organizational learning from failures and successes: A study of acquisition completion in the global newspaper industry, 1981-2008. *Strategic Management Journal*, 33(8): 938-964.

Murphy, K.J. 1999. Executive compensation. In O. Ashenfelter & D. Card (Eds.), *Handbook of labor economics*: 2485-2563. Amsterdam: Elsevier Science.

Musteen, M., Datta, D.K., & Herrmann, P. 2009. Ownership structure and CEO compensation: Implications for the choice of foreign market entry modes. *Journal of International Business Studies*, 40(2): 321-338.

Myers, D.J. 2000. The diffusion of collective violence: Infectiousness, susceptibility, and mass media networks. *American Journal of Sociology*, 106(1): 173-208.

Ng, D., Westgren, R., & Sonka, S. 2009. Competitive blind spots in an institutional field. *Strategic Management Journal*, 30(4): 349-369.

Nigam, A, & Ocasio, W. 2010. Event attention, environmental sensemaking, and change in institutional logics: An inductive analysis of the effects of public attention to

Clinton's health care reform initiative. *Organization Science*, 21(4): 823-841.

Oakes, L.S., Townley, B., & Cooper, D.J. 1998. Business planning as pedagogy: Language and control in a changing institutional field. *Administrative Science Quarterly*, 43(2): 257-292.

Ocasio, W. 1997. Towards an attention-based view of the firm. *Strategic Management Journal*, 19(S1): 187-206.

Oezen, S., & Akkemik, K.A. 2012. Does illegitimate corporate behaviour follow the forms of polity? The Turkish experience. *Journal of Management Studies*, 49(3): 515-537.

Okhmatovskiy, I., & David, R.J. 2012. Setting your own standards: International corporate governance codes as a response to institutional pressure. *Organization Science*, 23(1): 155-176.

Oliver, A.L., & Montgomery, K. 2008. Using field-configuring events for sense-making: A cognitive network approach. *Journal of Management Studies*, 45(6): 1147-1167.

Oliver, C. 1991. Strategic responses to institutional processes. *Academy of Management Review*, 16(1): 145-179.

Oliver, C. 1997. Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic Management Journal*, 18(9): 697-713.

Oxley, J.E., & Sampson, R.C. 2004. The scope and governance of international R&D alliances. *Strategic Management Journal*, 25(8-9): 723-749.

Palmer, D.A., & Barber, B.M. 2001. Challengers, elites, and owning families: A social class theory of corporate acquisitions in the 1960s. *Administrative Science Quarterly*, 46(1), 87-120.

Palmer, D.A., Jennings, P.D., & Zhou, X. 1993. Late adoption of the multidivisional form by large U.S. corporations: Institutional, political, and economic accounts. *Administrative Science Quarterly*, 38(1): 100-131.

Peng, M.W. 2004. Outside directors and firm performance during institutional transitions. *Strategic Management Journal*, 25(5): 453-471.

Peng, M.W., Sun, S.L., Pinkham, B., & Chen, H. 2009. The institution-based view as a third leg for a strategy tripod. *Academy of Management Perspectives*, 23(3): 63–81.

Peng, M.W., Wang, D.Y.L., & Jiang, Y. 2008. An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, 39(5): 920-936.

Pfeffer, J., & Salancik, G. 2003. *The external control of organizations – a resource dependence perspective*. Stanford: Stanford Business Books.

Philippe, D., & Durand, R. 2011. The impact of norm-conforming behaviors on firm reputation. *Strategic Management Journal*, 32(9): 969-993.

Piekkari, R., Vaara, E., Tienari,J., & Saentti, R. 2005. Integration or disintegration? Human resource implications of a common corporate language decision in a cross-border merger. *International Journal of Human Resource Management*, 16(3): 330-344.

Pinkse, J., & Kolk, A. 2012. Multinational enterprises and climate change: Exploring institutional failures and embeddedness. *Journal of International Business Studies*, 43(3): 332-341.

Pisano, G.P. The R&D boundaries of the firm: An empirical analysis. *Administrative Science Quarterly*, 35(1): 153-176.

Powell, T.C., Lovallo, D., & Fox, C.R. 2011. Behavioral strategy. *Strategic Management Journal*, 32(13): 1369-1386.

Purdy, J.M., & Gray, B. 2009. Conflicting logics, mechanisms of diffusion, and multilevel dynamics in emerging institutional fields. *Academy of Management Journal*, 52(2): 355-380.

Rajgopal, S., & Shevlin, T. 2002. Empirical evidence on the relation between stock option compensation and risk taking. *Journal of Accounting and Economics*, 33(2): 145-171.

Rao, H. 1994. The social construction of reputation: Certification contests, legitimation, and the survival of organizations in the American automobile industry: 1895-1912. *Strategic Management Journal*, 15(S1): 29-44.

Rao, H., Greve, H.R., & Davis, G.F. 2001. Fool's Gold: Social Proof in the Initiation and Abandonment of Coverage by Wall Street Analysts. *Administrative Science Quarterly*, 46(3): 502-526.

Rao, H., Monin, P., & Durand, R. 2003. Institutional change in Toque Ville: Nouvelle cuisine as an identity movement in French gastronomy. *American Journal of Sociology*, 108(4): 795-843.

Reay, T., Golden-Biddle, K., & Germann, K. 2006. Legitimizing a new role: Small wins and microproccesses of change. *Academy of Management Journal*, 49(5): 977-998.

Rhee, M., Kim, Y.-C., & Han, J. 2006. Confidence in imitation: Niche-width strategy in the UK automobile industry. *Management Science*, 52(4): 501-513.

Rodrigues, S., & Child, J. 2003. Co-evolution in an institutionalized environment. *Journal of Management Studies*, 40(8): 2137-2162.

Rojas, F. 2010. Power through institutional work: Acquiring academic authority in the 1968 third world strike. *Academy of Management Journal*, 53(6): 1263-1280.

Rosenzweig, P.M., & Nohria, N. 1994. Influences on human resource management practices in multinational corporations. *Journal of International Business Studies*, 25(2): 229-251.

Rosenzweig, P.M., & Singh, J.V. 1991. Organizational environments and the multinational enterprise. *Academy of Management Review*, 16(2): 340-361.

Roth, K., & Kostova, T. 2003. The use of the multinational corporation as a research context. *Journal of Management*, 29(6): 883-902.

Ruef, M., & Scott, W.R. 1998. A multidimensional model of organizational legitimacy: Hospital survival in changing institutional environments. *Administrative Science Quarterly*, 43(4): 877-904.

Salomon, R., & Wu, Z. 2012. Institutional distance and local isomorphism strategy. *Journal of International Business Studies*, 43(4): 343-367.

Sanders, Wm. G. 2001. Behavioral responses of CEOs to stock ownership and stock option pay. *Academy of Management Journal*, 44(3): 477-492.

Sanders, Wm. G., & Carpenter, M.A. 2003. Strategic satisficing? A behavioral-agency theory perspective on stock repurchase program announcements. *Academy of Management Journal*, 46(2): 160-178.

Sanders, Wm. G., & Hambrick, D.C. 2007. Swinging for the fences: The effects of CEO stock options on company risk taking and performance. *Academy of Management Journal*, 50(5): 1055-1078.

Sanders, Wm. G., & Tuschke, A. 2007. The adoption of institutionally contested organizational practices: The emergence of stock option pay in Germany. *Academy of Management Journal*, 50(1): 33-56.

Schaefer, A. 2007. Contrasting institutional and performance accounts of environmental management systems: Three case studies in the UK water & sewerage industry. *Journal of Management Studies*, 44(4): 506 535.

Scharfstein, D.S., & Stein, J.C. 1990. Herd behavior and investment. *American Economic Review*, 80(3): 465-479.

Schoonhoven, C.B., Eisenhardt, K.M., & Lyman, K. 1990. Speeding products to market: Waiting time to first product introduction in new firms. *Administrative Science Quarterly*, 35(1), 177-207.

Schwens, C., Eiche, J., & Kabst, R. 2011. The moderating impact of informal institutional distance and formal institutional risk on SME entry mode choice. *Journal of Management Studies*, 48(2): 330-351.

Scott, W.R. 2001. *Institutions and organizations*. Thousand Oaks, CA: Sage.

Scott, W.R., & Meyer, J.W. 1994. *Institutional environments and organizations*. Thousand Oaks, CA: Sage.

Securities and Exchange Commission (SEC). 2014. SEC Enforcement Actions: FCPA Cases. https://www.sec.gov/spotlight/fcpa/fcpa-cases.shtml [retrieved 28/09/2014].

Semadeni, M., & Anderson, B.S. 2010. The follower's dilemma: Innovation and imitation in the professional services industry. *Academy of Management Journal*, 53(5): 1175-1193.

Seo, M.-G., & Creed, W.E.D. 2002. Institutional contradictions, praxis, institutional change: A dialectical perspective. *Academy of Management Review*, 27(2): 222-247.

Shavell, S. 1979. Risk sharing and incentives in the principal and agent relationship. *Bell Journal of Economics*, 10(1): 55-73.

Sherer, P.D., & Lee, K. 2002. Institutional change in large law firms: A resource dependency and institutional perspective. *Academy of Management Journal*, 45(1): 102-119.

Shi, W., Sun, J., & Prescott, J.E. 2012. A temporal perspective of merger and acquisition strategic alliance initiatives: Review and future direction. *Journal of Management*, 38(1): 164-209.

Shimizu, K., Hitt, M.A., Vaidyanath, D., & Pisano, V. 2004. Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommendations for the future. *Journal of International Management*, 10(3): 307-353.

Shipilov, A.V., Greve, H.R., & Rowley, T.J. 2010. When do interlocks matter? Institutional logics and the diffusion of multiple corporate governance practices. *Academy of Management Journal*, 54(4): 846-864.

Short, J.L., & Toffel, M.W. 2010. Making self-regulation more than merely symbolic: The critical role of the legal environment. *Administrative Science Quarterly*, 55(3): 361-396.

Simon, H.A. 1955. A behavioral model of rational choice. *Quarterly Journal of Economics*, 69(1): 99-118.

Simons, T., & Roberts, P.W. 2008. Local and non-local pre-founding experience and new organizational form penetration - the case of the Israeli wine industry. *Administrative Science Quarterly*, 53(2): 235-265.

Sine, W.D., & Lee, B.H. 2009. Tilting at windmills? The environmental movement and the emergence of the U.S. wind energy sector. *Administrative Science Quarterly*, 54(1): 123-155.

Sitkin, S.B., & Pablo, A.L. 1992. Reconceptualizing the determinants of risk behavior. *Academy of Management Review*, 17(1): 9-38.

Slack, T., & Hinings, B. 1994. Institutional pressures and isomorphic change: An empirical test. *Organization Studies*, 15(6): 803-827.

Slangen, A., & Beugelsdijk, S. 2010. The impact of institutional hazards on foreign multinational activity: A contingency perspective. *Journal of International Business Studies*, 41(6): 980-995.

Smets, M., Morris, T., & Greenwood, R. 2012. From practice to field: A multilevel model of practice-driven institutional change. *Academy of Management Journal*, 55(4): 877-904.

Song, X.M., di Benedetto, C.A., & Zhao, Y.Z. 1999. Pioneering advantages in manufacturing and service industries: Empirical evidence from nine countries.

Strategic Management Journal, 20(9): 811-836.

Souitaris, V., Zerbinati, V., & Liu, G. 2012. Which iron cage? Endo- and exoisomorphism in corporate venture capital programs. *Academy of Management Journal*, 55(2): 477-505.

Spencer, J., & Gomez, C. 2011. MNEs and corruption: The impact of national institutions and subsidiary strategy. *Strategic Management Journal*, 32(3): 280-300.

Staw, B.M., & Epstein, L.D. 2000. What bandwagons bring: Effects of popular management techniques on corporate performance, reputation, and CEO pay. *Administrative Science Quarterly*, 45(3): 523–556.

Strang, D., & Meyer, J.W. 1993. Institutional conditions for diffusion. *Theory and Society*, 22(4): 487-511.

Suchman, M.C. 1995. Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20(3): 571-610.

Suddaby, R., Elsbach, K.D., Greenwood, R., Meyer, J.W., & Zilber, T.B. 2010. Organizations and their institutional environments - brining meaning, values, and culture back in: Introduction to special research forum. *Academy of Management Journal*, 53(6): 1234-1240.

Suddaby, R., & Greenwood, R. 2005. Rhetorical strategies of legitimacy. *Administrative Science Quarterly*, 50(1): 35-67.

Thaler, R.H., & Johnson, E.J. 1990. Gambling with the house money and trying to break even: The effects of prior outcomes on risky choice. Management Science, 36(6): 643-660.

Thornton, P.H. 2002. The rise of the corporation in a craft industry: Conflict and conformity in institutional logics. *Academy of Management Journal*, 45(1): 81-101.

Thornton, P.H., & Ocasio, W. 1999. Institutional Logics and the historical contingency of power in organizations: Executive succession in the higher education publishing industry, 1958-1990. *American Journal of Sociology*, 105(3): 801-843.

Tihanyi, L., Ellstrand, A.E., Daily, C.M., & Dalton, D.R. 2000. Composition of the top management team and firm international diversification. *Journal of Management*, 26(6): 1157-1177.

Tihanyi, L., Griffith, D.A., & Russell, C.J. 2005. The effect of cultural distance on entry mode choice, international diversification, and MNE performance: A meta-analysis. *Journal of International Business Studies*, 36(3): 270-283.

Tilcsik, A. 2010. From ritual to reality: Demography, ideology, and decoupling in a post-communist government agency. *Academy of Management Journal*, 53(6): 1474-1498.

Tolbert, P.S., & Zucker, L.G. 1983. Institutional sources of change in the formal structure of organizations: The diffusion of civil service reform, 1880-1935. *Administrative Science Quarterly*, 28(1): 22-39.

Torfason, M.T., & Ingram, P. 2010. The global rise of democracy: A network account. *American Sociological Review*, 75(3): 355-377.

Tosi, H.L, & Gomez-Mejia, L.R. 1989. The decoupling of CEO pay and performance: An agency theory perspective. *Administrative Science Quarterly*, 34(2): 169-189.

Townley, B. 2002. The role of competing rationalities in instituitonal change. *Academy of Management Journal*, 45(1): 163-179.

Tracey, P., Phillips, N., & Jarvis, O. 2011. Bridging institutional entrepreneurship and the creation of new organizational forms: A multilevel model. *Organization Science*, 22(1): 60-80.

Tsui-Auch, L.S., & Moellering, G. 2010. Wary managers: Unfavorable environments, perceived vulnerability, and the development of trust in foreign enterprises in China. *Journal of International Business Studies*, 41(6): 1016-1035.

Tversky, A., & Kahneman, D. 1991. Loss aversion in riskless choice: A reference-dependent model. *Quarterly Journal of Economics*, 106(4): 1039-1061.

Tyler, B.B., & Steensma, H.K. 1998. The effects of executives' experiences and perceptions on their assessment of potential technological alliances. *Strategic Management Journal*, 19(10): 939-965.

van Essen, M., Heugens, P.M.A.R., Otten, J., & van Oosterhout, J. 2012. An institution-based view of executive compensation: A multilevel meta-analytic test. *Journal of International Business Studies*, 43(4): 396-423.

Vanhaverbeke, W., Duysters, G., & Noorderhaven, N. 2002. External technology sourcing through alliances or acquisitions: An analysis of the application-specific integrated circuits industry. *Organization Science*, 13(6): 714-733.

Venard, B. 2009. Organizational isomorphism and corruption: An empirical research in Russia. *Journal of Business Ethics*, 89(1): 59-76.

Villalonga, B., & McGahan, A.M. 2005. The choice among acquisitions, alliances, and divestitures. *Strategic Management Journal*, 26(13): 1183-1208.

Waddock, S.A., & Graves, S.B. 1997. The corporate social performance-financial performance link. *Strategic Management Journal*, 18(4): 303-39.

Wade, J.B., Porac, J.F., Pollock, T.G., & Graffin, S.D. 2006. The burden of celebrity: The impact of CEO certification contests on CEO pay and performance. *Academy of Management Journal*, 49(4): 643-660.

Wade, J.B., Swaminathan, A., & Saxon, M.S. 1998. Normative and resource flow consequences of local regulations in the American brewing industry, 1845-1918. *Administrative Science Quarterly*, 43(4): 905-935.

Walker, G., Madsen, T.L., & Carini, G. 2002. How does institutional change affect heterogeneity among firms? *Strategic Management Journal*, 23(2): 89-104.

Wang, L., & Zajac, E.J. 2007. Alliance or acquisition? A dyadic perspective on interfirm resource combinations. *Strategic Management Journal*, 28(13): 1291-1317.

Washington, M., & Ventresca, M.J. 2004. How organizations change: The role of institutional support mechanism in the incorporation of higher education visibility strategies, 1874–1995. *Organization Science*, 15(1): 82-97.

Weber, K., Davis, G.F., & Lounsbury, M. 2009. Policy as myth and ceremony? The global spread of stock exchanges, 1980-2005. *Academy of Management Journal*, 52(6): 1319-1347.

Werner, S., Tosi, H.L, & Gomez-Mejia, L.R. 2005. Organizational governance and employee pay: How ownership structure affects the firm's compensation strategy. *Strategic Management Journal*, 26(4): 377-384.

Westney, D.E. 1993. Institutionalization theory and the multinational corporations. In S. Ghoshal & D.E. Westney (Eds.), *Organization theory and the multinational corporation*: 53-76. New York: St Martin's Press.

Westphal, J.D., Gulati, R., & Shortell, S.M. 1997. Customization or conformity? An institutional and network perspective on the content and consequences of TQM adoption. *Administrative Science Quarterly*, 42(2): 366–394.

Westphal, J.D., Seidel, M.-D.L., & Stewart, K.J. 2001. Second-order imitation: Uncovering latent effects of board network ties. *Administrative Science Quarterly*, 46(4): 717-747.

Westphal, J.D., & Zajac, E.J. 1994. Substance and symbolism in CEOs' long-term incentive plans. *Administrative Science Quarterly*, 39(3): 367-390.

Westphal, J.D., & Zajac, E.J. 1997. Defections from the inner circle: social exchange, reciprocity, and the diffusion of board independence in U.S. corporations. *Administrative Science Quarterly*, 42(1): 161-183.

Westphal, J.D., & Zajac, E.J. 1998. The symbolic management of stockholders: Corporate governance reforms and shareholders reactions. *Administrative Science Quarterly*, 43(1): 127-153.

Westphal, J.D., & Zajac, E.J. 2001. Decoupling policy from practice: The case of stock repurchase programs. *Administrative Science Quarterly*, 46(2): 202-228.

Wiersema, M.F., & Bantel, K.A. 1992. Top management team demography and corporate strategic change. *Academy of Management Journal*, 35(1): 91-121.

Wiersema, M.F., & Zhang, Y. 2011. CEO dismissal: The role of investment analysts. *Strategic Management Journal*, 32(11): 1161-1182.

Williamson, I.O., & Cable, D.M. 2003. Organizational hiring patterns, interfirm network ties, and interorganizational imitation. *Academy of Management Journal*, 46(3), 349-358.

Williamson, O. 1981. The economics of organization: The transaction cost approach. American *Journal of Sociology*, 87(3): 548-577.

Williamson, O. 1985. *The economic institutions of capitalism*. New York, NY: Free Press.

Williamson, O. 1991. Comparative economic organization: The analysis of discrete structural alternatives. *Administrative Science Quarterly*, 36(2): 269-296.

Wiseman, R.M. 2009. On the use and misuse of ratio measurs. In D. Bergh and D. Ketchen (Eds.), *Research methodology in strategic management*: 75-110. Bingley, UK: Emerald Group Publishing.

Wiseman, R.M., & Catanach, A.H. 1997. A longitudinal disaggregation of operational risk under changing regulations: Evidence from the savings and loan industry. *Academy of Management Journal*, 40(4): 799-830.

Wiseman, R.M., Cuevas-Rodriguez, G., & Gomez-Mejia, L.R. 2012. Towards a social theory of agency. *Journal of Management Studies*, 49(1): 202-222.

Wiseman, R.M., & Gomez-Mejia, L.R. 1998. A behavioral agency model of managerial risk taking. *Academy of Management Review*, 23(1): 133-153.

Wiseman, R.M., Gomez-Mejia, L.R., & Fugate, M. 2000. Rethinking compensation risk. In S.L. Rynes & B. Gerhart (Eds), *Compensation in organizations*: 311-347. San Francisco, CA: Josey-Bass.

Witt, M.A., & Redding, G. 2010. Culture, meaning, and institutions: Executive rationale in Germany and Japan. *Journal of International Business Studies*, 40(5): 859-885.

Wry, T., Lounsbury, M., & Glynn, M.A. 2011. Legitimating nascent collective identities: Coordinating cultural entrepreneurship. *Organization Science*, 22(2): 449-463.

Xia, J., Boal, K., & Delios, A. 2009. When experience meets national institutional environmental change: Foreign entry attempts of U.S. Firms in the Central and Eastern European region. *Strategic Management Journal*, 30(12): 1286-1309.

Xia, J., Tan, J., & Tan, D. 2008. Mimetic entry and bandwagon effect: The rise and decline of international equity joint venture in China. *Strategic Management Journal*, 29(2): 195-217.

Xu, D., Lu, J.W. 2007. Technological knowledge, product relatedness, and parent control: The effect on IJV survival. *Journal of Business Research*, 60(11): 1166-1176.

Xu, D., Pan, Y., & Beamish, P.W. 2004. The effect of regulative and normative distance on MNCE ownership and expatriate strategies. *Management International Review*, 44(3): 285-307.

Xu, D., & Shenkar, O. 2002. Institutional distance and the multinational enterprise. *Academy of Management Review*, 27(4): 608-618.

Yang, M., & Hyland, M. 2006. Who do firms imitate? A multilevel approach to examining sources of imitation in the choice of mergers and acquisitions. *Journal of Management*, 32(3): 381-399.

Yeung, A.C.L., Lo, C.K.Y., & Cheng, T.C.E. 2011. Behind the Iron Cage: An institutional perspective on ISO 9000 adoption and CEO compensation. *Organization Science*, 22(6): 1600-1612.

Yin, X., & Shanley, M. 2008. Industry determinants of the “merger versus alliance” decision. *Academy of Management Review*, 33(2): 473-491.

Yiu, D.W., & Makino, S. 2002. The choice between joint venture and wholly owned subsidiary: an institutional perspective. *Organization Science,* 13(6): 667-683.

Yoshikawa, T., Tsui-Auch, L.S., & McGuire, J. 2007. Corporate governance reform as institutional innovation: The case of Japan. *Organization Science*, 18(6): 973-988.

Zaheer, S. 1995. Overcoming the liability of foreignness. *Academy of Management Journal,* 38(2): 341-363.

Zhang, X., Bartol, K.M., Smith, K.G. Pfarrer, M.D., & Khanin, D.M. 2008. CEOs on the edge: Earnings manipulation and stock-based incentive misalignment. *Academy of Management Journal*, 51(2): 241-258.

Zhao, H., Luo, Y., & Suh, T. 2004. Transaction cost determinants and ownership-based entry mode choice: A meta-analytical review. *Journal of International Business Studies*, 35(6): 524-544.

Zietsma, C., & Lawrence, T.B. 2010. Institutional work in the transformation of an organizational field: The interplay of boundary work and practice work. *Administrative Science Quarterly*, 55(2): 189-221.

Zilber, T.B. 2006. The work of the symbolic in institutional processes: Translations of rational myths in Israeli high tech. *Academy of Management Journal*, 49(2): 281-303.

Zilber, T.B. 2011. Institutional multiplicity in practice: A tale of two high-tech conferences in Israel. *Organization Science*, 22(6): 1539-1559.

Zollo, M., & Reuer, J.J. 2010. Experience spillovers across corporate development activities. *Organization Science*, 21(6): 1195-1212.

Zott, C., & Huy, Q.N. 2007. How entrepreneurs use symbolic management to acquire resources. *Administrative Science Quarterly*, 52(1): 70-105.

Zucker, L.G. 1977. The role of institutionalization in cultural persistence. *American Sociological Review*, 42(5): 726-743.

Zuckerman, E.W. 2000. Focusing the corporate product: Securities analysts and de-diversification. *Administrative Science Quarterly*, 45(3): 591-619.