

FDI Entry Strategies and the Impacts of Economic Freedom Distance: Evidence from Nordic FDI in the Transitional Periphery of CIS and SEE

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Abstract

This paper addresses foreign direct investment (FDI) entry strategies of multinational enterprises (MNEs) by analysing both establishment mode (greenfield investment vs. acquisition) and ownership mode (wholly owned subsidiary vs. joint venture) strategies together. It contributes to extant IB literature by being one of the first to specifically address influences of economic freedom distance on both FDI establishment and ownership mode strategies of MNEs. The novel empirical sample consisting of 348 FDIs made by 146 Nordic (Denmark, Finland, Norway and Sweden) MNEs in the less researched transitional periphery of the European Union (EU), i.e. Common Wealth of Independent States (CIS) and South-Eastern Europe (SEE), during 1990-2009 further enhances the contribution of our study. The study results revealed that high economic freedom distance leads to preference of greenfield investments and JVs by Nordic MNEs in the full sample. Further in depth analysis by dividing the sample into FDIs in the Russian Federation vs. other host economies lead to more interesting insights into the establishment and ownership mode strategies of Nordic MNEs.

Keywords: Economic Freedom Distance, Establishment Mode Strategy, Ownership Mode Strategy, Transitional Periphery, CIS, SEE.

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1. INTRODUCTION

Foreign market entry mode decisions are an important part of the international strategy of multinational enterprises (MNEs) and have been researched widely in the field of international business (IB) studies (e.g. Brouthers and Hennart, 2007; Slangen and Hennart, 2007). These decisions are commonly segmented into equity based and non-equity based modes (Pan and Tse, 2000; Brouthers and Hennart, 2007). The equity based entry modes involve foreign direct investment (FDI) made by the MNEs (Dunning and Lundan, 2008; Demirbag et al., 2008) and involve detailed analyses of the trade-off between control and investment risk, as well as conformance to institutional requirements of host countries (e.g. Luo, 2001; Xu and Shenkar, 2002; Arslan and Larimo, 2011). MNEs face two important strategic decisions when they wish to enter new international markets using FDI mode. The first one is referred to as establishment mode strategy (Dikova and van Witteloostuijn, 2007; Arslan and Larimo, 2011), where MNEs, decide whether to acquire an existing enterprise (acquisition) or build a new start up (greenfield investment). The second one is referred to as ownership mode strategy where the level of equity ownership in a foreign subsidiary is determined, i.e. formation of a wholly owned subsidiary (WOS) or a joint venture (JV) with a local partner (e.g. Brouthers and Brouthers, 2000; Slangen and Hennart, 2007).

IB Scholars have analysed these FDI strategies of MNEs using different theoretical and empirical approaches. Some past studies addressed the ownership mode strategy of MNEs by studying the choice between JVs or WOSs (e.g. Anderson and Gatignon, 1986; Luo, 2001; Xu et al., 2004; Brouthers and Hennart, 2007; Jung et al., 2008). Other IB scholars concentrated more on the establishment mode strategy of the MNEs (e.g. Hennart and Park, 1993; Brouthers and Brouthers, 2000; Datta et al., 2002; Larimo, 2003; Shimizu et al., 2004; Slangen and Hennart, 2007; Demirbag et al., 2008; Arslan and Larimo, 2011). Finally, some IB studies have attempted to perform an in depth analysis of equity entry mode strategy by addressing the choice between joint ventures, acquisitions and greenfield investments by the MNEs (e.g. Kogut and Singh, 1988; Chang and Rosenzweig, 2001; Elango and Sambharya, 2004; Dikova, 2012). An MNE's subsidiary can be wholly or partially owned whether it creates a greenfield investment or acquires an existing firm, indicating that acquisitions can be partially and wholly owned as well (e.g. Jakobsen and Meyer, 2008; Arslan and Larimo, 2012; Contractor et al., 2014). Moreover, it should be noted that each of the market entry mode strategies (full acquisitions, wholly owned greenfield investments, partial acquisitions

and JVs) offers specific benefits and risks for MNEs. Consequently, establishment and ownership mode strategies emerge as significant decisions for MNEs (Kulkarni, 2001; Chang and Rosenzweig, 2001; Harzing, 2002; Demirbag et al., 2008) because they are considerably inflexible and irreversible in nature due to the large financial and resource commitment involved (e.g. Elango and Sambharya, 2004; Dikova, 2012). Strikingly, while there may not be agreement on the actual rate of success/failure in various FDI establishment and ownership mode strategies (for instance, acquisitions, JVs and WOSs), it is clear that far too many investments fail to deliver what was expected (e.g. Cartwright and Cooper, 1996; Schoenberg, 2006; Gomes et al., 2011; Weber et al., 2014). Therefore, studying and analysing both FDI establishment and ownership mode strategies together can offer useful insights and contribute to extending IB literature because they have been rather infrequently addressed together and in-depth in past IB studies.

MNEs entering foreign markets using FDI mode encounter an important issue as each host country represents a unique institutional environment (North, 1990) which can influence their entry and operational strategies substantially (e.g. Peng, 2002, 2003; Estrin et al., 2009). The differences in institutional environments between home and host countries of MNEs and the impacts on their strategies have been addressed in past IB studies by the construct of institutional distance, which has been conceptualised and operationalised in a variety of ways (e.g. Xu and Shenkar, 2002; Xu et al., 2004; Gaur and Lu, 2007; Estrin et al., 2009; Arslan and Larimo, 2010, 2011; Dikova, 2012).

It needs to be stressed that an important characteristic of institutional environments of the host countries relates to the differing levels of economic freedom in their economies (North and Thomas, 1973; North, 1981, 1990). The level of economic freedom of a country has been linked to its economic development as well as to the increased FDI inflows and activities of the MNEs (Cole, 2003). Economic freedom in a country can be defined by its key ingredients which are “personal choice, voluntary exchange coordinated by markets, freedom to enter and compete in markets, and protection of persons and their property from aggression by others” (Gwartney et al., 2008: 3). For instance, the study by Ford et al. (1998) focusing on the macro level examined the link between economic freedom (a measure of government intervention) and the penetration of three durable goods (televisions, radios and automobiles) across countries and found a significant relationship between greater amounts of economic freedom and penetration for these three products. However, the factors concerning economic

freedom in different countries have been rather infrequently researched in the management and IB studies addressing the strategies of MNEs in their international markets. DiRienzo et al. (2007), Demirbag et al. (2011) and Arslan and Larimo (2012) are examples of the very few studies that used some aspects of economic freedom to analyse different IB strategies of MNEs.

It has been referred earlier that the variance in levels of economic freedom in host countries has been found to have strong linkages with FDI flows; we expect that this variance may also impact important FDI related strategies and choices of the investing MNEs. Therefore, we argue that the economic freedom distance (i.e. difference in levels of economic freedom in the home and host countries of MNEs) can potentially influence both FDI establishment and ownership mode choices. The literature review of past management and IB research reveals that so far no study (at least to our knowledge) has specifically analysed the impacts of economic freedom distance on both establishment mode and ownership mode strategies of the MNEs together. Therefore, this paper aims to enrich the extant IB and management literature by analysing these important FDI strategies of MNEs together, using a relatively new construct of economic freedom distance.

The empirical sample of the current study is based on the FDIs made by Nordic Firms in host economies that are located in the transitional periphery of the European Union (EU) i.e. Commonwealth of Independent States (CIS) and South-East Europe (SEE). The importance of transition economies as investment locations for the MNEs has hugely increased over the last decade (Meyer and Peng, 2005; Bitzenis, 2009). With economic liberalization of Central and Eastern European countries (CEE), and former Soviet Union republics, vast market and production opportunities opened up for the MNEs (Bitzenis, 2009). A number of IB studies have focused on the CEE area in general to analyse different aspects of FDI market entry mode strategies of MNEs (see e.g. Meyer, 2002; Peng, 2003; Meyer and Peng, 2005; Dikova and van Witteloostuijn, 2007; Karhunen et al., 2008; Jakobsen and Meyer, 2008; Arslan and Larimo, 2010; Dikova, 2012; Bitzenis, 2004, 2006, 2009, 2014). Moreover, ex-socialist countries represent two distinct categories; the Baltic States, Poland, Hungary, the Czech Republic, Slovenia and Slovakia have been more successful in their transition to market economies and are considered part of developed European economies since joining the European Union in 2004 (Zweynert and Goldschmidt, 2006). However, CIS and SEE countries like Russia, Belarus, Bulgaria, Ukraine, Romania, Bosnia and Herzegovina,

Croatia, Serbia, Kazakhstan and Uzbekistan have been less successful in their transition to market economy and significant barriers still exist for foreign firms' entry and operations (Meyer, 2005; Shiells, 2003 Zweynert and Goldschmidt, 2005,2006, Bitzenis, 2009; EBRD, 2013). Although Romania and Bulgaria joined the EU in 2007, significant problems in relation to institutional development, economic freedom and transparency exist there (e.g. Dumitriu and Stefanescu, 2008; EBRD, 2013).

The term transitional periphery of the EU was coined by sociologists and economists a decade ago (see e.g. Totev, 2002; Barry, 2004; Galego et al., 2004; Balkir et al., 2013) and includes countries located in territories bordering core EU economies in the SEE region as well as ex-soviet states that are members of CIS (Demekas et al., 2005, 2007; Aslund, 2012; Estrin and Uvalic, 2013, 2014). These economies are generally characterized by significant challenges for investing foreign MNEs, such as macroeconomics and political instability, problematic legal systems, official corruption, crime and mafia, lack of information about market conditions and uncertainty, and lack of a business culture by local employees and local partners (Demekas et al., 2005, 2007; Bitzenis, 2009; Estrin and Uvalic, 2013, 2014). These challenges resulted primarily from the political instability in the Balkans during the 1990s, as well as the slow pace of transition combined with high corruption in economies like those of Bulgaria, Romania, Belarus, Ukraine and Russia (Bitzenis and Marangos, 2007; Aslund, 2012; Bitzenis, 2009; Estrin and Uvalic, 2013, 2014; Treisman, 2014). However, despite the challenges, there has been an increasing interest by western MNEs in these economies depicted by increased FDI over the years due to prospects for future market and business growth, as well as location advantages of presence in low cost economies close to the EU (Bitzenis and Vlachos, 2010; Treisman, 2014).

It needs to be further stressed that SEE and CIS States have been rather ignored in transition economy specific market entry and IB studies because those studies mostly concentrated on CEE countries like Poland, Hungary, Baltic States, Czech Republic, Slovakia, and Slovenia that became part of the EU in 2004. Moreover, in many of the earlier market entry studies, the Russian Federation has been included in the sample of CEE states with other countries like Poland, Hungary, Baltic states (e.g. Meyer, 2002; Meyer and Peng 2005; Arslan and Larimo 2010; Dikova, 2012). We argue that based on the important indicators of transition to market economy and the level of economic freedom, the Russian Federation should be included in analysis with other transitional periphery economies of CIS and SEE (Gwartney

et al., 2008, 2009; IMD, 2010). Therefore, the current paper aims to concentrate on FDI in host countries located in this transitional periphery of developed and advanced European economies. The investing MNEs in the current study's empirical sample come from small, open and highly internationalised Nordic economies (i.e. Finland, Sweden, Norway and Denmark). The home countries of the investing MNEs in the current study further characterise a developed institutional environment representing high levels of economic freedom (Gwartney et al., 2009). It is expected that this relatively unique empirical context has the potential to offer newer insights to the literature concerning establishment and ownership mode strategies of MNEs, as it also uses the construct of economic freedom distance, which is an important and rather infrequently researched construct in the management and IB studies.

2. THEORETICAL BACKGROUND AND STUDY HYPOTHESES

Economic freedom has been referred to by economic historians as an important pre-requisite of economic activity, growth and development in different societies and countries (e.g. North and Thomas, 1973; North, 1990). The previous research indicates that increased economic freedom in the emerging economies is a positive determinant of FDI inflows and it should also be a key priority of the policy makers in those countries (e.g. Krugman, 1991; Cole, 2003). Further on, Cole (2003) found that the countries with greater economic freedom (which offer the protection of privately operating markets and of private property with minimal government interference) receive increased FDI inflows over a longer time period, in comparison with the countries with lower levels of economic freedom. As has been stated earlier, economic freedom in a country has been shown to have strong linkages with increased FDI inflows and activities by MNEs in those economies (Krugman, 1991; Meyer et al., 2009). Therefore, it can be expected that the difference in levels of economic freedom between home and host countries of MNEs (i.e. economic freedom distance) can also influence both the establishment and ownership mode strategies of the MNEs.

Economic freedom distance between home and host countries of an MNE can be a source of uncertainty for the investing firm in a new environment (Demirbag et al., 2011) and can lead to additional costs for the investing MNE's operations in that particular market. These costs result from unfamiliarity hazards as referred to in some earlier management and IB studies (e.g. Gaur and Lu, 2007; Demirbag et al., 2011). Unfamiliarity hazards emerge from the

investing MNEs' lack of knowledge about the host country institutions (Demirbag et al., 2011) and they are also a major hurdle in managing a subsidiary (e.g. Delios and Henisz, 2003; Gaur and Lu, 2007). The weakness of market economy institutions in any country has been mentioned as a major source of these problems for the investing MNEs (Meyer et al., 2009; Demirbag et al., 2011). The weakness of market economy institutions in the host countries is also evidenced by the presence of a low level of economic freedom there (Gwartney et al., 2008). Economic freedom distance can be referred to as a manifestation of the differences in terms of strength of market economy institutions between home and host countries of MNEs (see e.g. Demirbag et al., 2011). As referred earlier, both establishment and ownership mode represent important market entry mode strategies of MNEs and the difference in levels of economic freedom between home and host country is expected to affect them significantly. Therefore, the specific discussion on the influence of economic freedom distance on these strategies of MNEs is presented as follows.

Economic Freedom Distance and FDI Establishment Mode Strategy of MNEs

Previous management and IB research indicates that if an MNE intends to internationalise by acquiring a local firm, in a distant market with high institutional differences, it often will face governmental intervention in the organizational policies and strategies due to differences in antitrust regulations (e.g. Schnepfer and Guillen, 2004; Estrin et al., 2009). It has also been found empirically that MNEs tend to establish greenfield subsidiaries, rather than acquisitions when the country differences are higher (e.g. Kogut and Singh, 1988; Cho and Padmanabhan, 1995). High differences between home and host countries have further been found by some earlier studies to increase management problems in acquisitions (e.g. Child et al., 2001; Datta et al., 2002; Arslan and Larimo, 2011). Moreover, the transfer of organizational practices, policies and strategies to an acquired business unit operating under local rules in a distant market can also be problematic for the acquiring MNEs (e.g. Kostova and Roth, 2002). As noted by Slangen (2013), often political constraints in host countries imply policy uncertainty for MNEs. Slangen (2013) further mentions that acquisitions require MNEs to obtain the much-needed external assets immediately upon entry, while greenfield subsidiaries allow them to buy these assets sequentially, causing greenfield subsidiaries temporarily to have a real options advantage over acquisitions, if policy uncertainty resolves unfavourably after the initiation of an entry. Moreover, Brouthers and Dikova (2010) mention that

acquisitions are a good choice only when firms enter markets containing a low level of uncertainty and when these firms possess acquisition-based strategic flexibility.

It has been established in previous literature that acquisition activity is higher in those economies where investor protection is high (e.g. Baums, 1993; Höpner, 2005), and where flexibility is allowed for the required restructuring of acquired firms, so that organisational practices can be transferred to the subsidiary (e.g. Jackson, 2005; Estrin et al., 2009). Previous studies have also found that internal conformity is difficult to achieve through acquisitions, while it is relatively easy to realise through greenfield investments (Datta et al., 2002). Furthermore, Tan (2009) has found that the post-entry growth of acquisitions is positively associated with weak and codifiable interdependence within the MNE's network, whereas the post-entry growth of greenfield investments is positively associated with strong and complex interdependence.

In previous studies concentrating on countries located in the transitional periphery of SEE and CIS, indicators like economic growth, policy framework and positive changes in business environment like privatization (i.e. better economic freedom) have been found have a strong influence on FDI flows (Kekic, 2005; Aslund, 2012). In a similar vein, some studies examined the effects of transition and of political instability on FDI flows to transitional periphery economies. Their results show strong linkage of increased FDI flow to reforms, including labour market low costs and flexibility (Bitzenis, 2009; Bitzenis and Marangos, 2007). We link these findings with FDI establishment mode strategies of investing Nordic MNEs in the transitional periphery of the EU. The economies of the transitional periphery represent totally different approaches to work culture and labour management compared to developed western economies (Aslund, 2012). For example transitional periphery economies which were part of the former Soviet Union (e.g. Russian Federation, Ukraine, Belarus, Central Asian economies etc.) inherited work practices based on a state focused bureaucratic approach and their institutional context is also very challenging (Welter and Smallbone, 2011). On the other hand, in SEE economies, transition has been very turbulent due to civil war in former Yugoslavian republics as well as the persistent problem of high levels of corruption in Bulgaria and Romania despite being EU members (Uvalic, 2010). Therefore, managers of such firms have difficulties in adjusting to a competitive work environment driven by a western managerial approach (Alas et al., 2012).

These differences can be expected to cause problems as organisational structures and practices in the acquired firm tend to be difficult to change due to inertia (Datta and Grant, 1990; Dikova et al., 2010), and this inertia is expected to be even higher in the case of transitional periphery economies. For example, Garcia et al. (2009) mention that considerable inertia is created in firms located in transition economies, due to a legacy of inefficient managerial approaches as well as protectionism. Smallbone and Welter (2012) further mention that in CIS economies, slow and problematic institutional reforms along with a difficult political context have made local organisations risk averse, and this leads to higher inertia and resistance to changes. In this situation, the investing MNEs would need to work out how the resources of the acquired firm could be employed into productive uses that are in line with its own objectives (Contractor et al., 2014); this situation also causes an additional cost burden for the MNE (Meyer and Altenborg, 2008). However, the greenfield subsidiary establishment in a host transitional periphery economy can offer investing Nordic firms an option to create an organization that is more similar to the parent organization (Drogendijk and Andersson, 2013). Moreover, using this strategy, Nordic MNEs can also recruit and train suitable human resources to develop practices that fit with the MNEs' international strategy as well as the local regulations (Höpner, 2005; Estrin et al., 2009; Arslan and Larimo, 2011). Therefore, we hypothesise that:

Hypothesis 1: Nordic MNEs prefer greenfield investments over acquisitions in their establishment mode strategy in the transitional periphery host economies with high economic freedom distance.

Economic Freedom Distance and FDI Ownership Mode Strategy of MNEs

Majority versus minority control i.e. ownership mode strategy of investing foreign MNEs is highly regulated in most economies (Xu and Shenkar 2002; Xu et al., 2004). Consequently, level of economic freedom in an economy influences the choice between JVs and WOSs by those MNEs. Based on the examination of foreign subsidiaries' financial data in China for 1998–2006, Chang et al. (2013) found strong evidence that WOSs outperform JVs with local partners in industries characterised by high levels of intangible assets such as technology or brand. According to Beamish and Lupton (2009), JVs help firms to access new markets, knowledge, capabilities and other resources, but can be challenging to manage, largely because they are owned by two or more parent companies that may have competing or

incongruent goals, differences in management style and, in the case of international business, additional complexities associated with differing government policies and business practices.

Demirbag et al. (2010), investigating the impact of institutional variables and transaction cost determinants on the foreign equity structure (namely choice between WOS, dyadic JV and multi-partner JV) in an emerging economy (Turkey), found that research and development (R&D) intensity, cultural distance, location of affiliate, affiliate size, political risk and corruption perception distances are particularly important in determining the choice of the afore-mentioned types of affiliate structure. An important issue highlighted in the earlier literature relates to the fact that the countries (and emerging/transition economies specially) should attempt to remove the restrictions on the investments by the foreign MNEs, as this would result in higher entry rates and increased investment flows by them (Shiells, 2003; Flores and Aguilera, 2007; Khanna and Palepu, 2010). The governmental restrictions on the market entry and operational strategies of the foreign MNEs result in pressures on them only to form JVs (Deng, 2003). Moreover, Child and Tsai (2005) found out that when firms operate under favourable external circumstances, they tend to commit more resources to that host economy. Therefore, the host countries representing a high level of economic freedom can provide a favourable institutional context for MNEs, which in turn can motivate investing MNEs to show more commitment and form WOSs rather than JVs.

It has been mentioned earlier that transitional periphery economies increase uncertainty for investing MNEs due to problems associated with institutional infrastructure (low levels of economic freedom) as well socioeconomic dynamics (Bitzenis, 2009; Demekas et al., 2005, 2007; Aslund, 2012; Estrin and Uvalic, 2013, 2014). To counter this uncertainty and ambiguity that arise from high economic freedom distance for investing Nordic MNEs, JV formation with an established and reliable local partner can be helpful. Along with countering uncertainty, JV formation with a local partner is also useful to overcome unfamiliarity hazards (Demirbag et al., 2011). Moreover, high economic freedom distance is also expected to put pressures on the Nordic MNEs by increasing their establishment and operational costs. This issue becomes relevant in this case because investing Nordic MNEs originating from a developed market economy are entering economies located in the transitional periphery of the EU, where the level of economic freedom is low due large government size, high taxation, less reliable financial structure and barriers on the foreign firm's operations and strategies (e.g. Tridimasa and Winer, 2005; Demekas et al., 2007; Bitzenis, 2009; Aslund, 2012; Estrin

and Uvalic, 2013, 2014). We argue that in such cases, the investing Nordic MNEs would prefer to form JVs with local partners to share additional costs, despite problems associated with JV management in transition economies (Li and Zhang, 2007; Kobernyuk et al., 2014).

The choice of JVs as an ownership strategy in transitional periphery economies with high economic freedom distance can further help investing Nordic MNEs to develop networking and relationships with key local players (e.g. Meyer, 2002; Kobernyuk et al., 2014). Finally, JV formation can offer an opportunity to align the interests of the foreign MNE and the host government (Meyer 2002, 2004; Chen et al., 2009), which is required in transition economies of SEE and CIS. Based on the discussion, we hypothesise that:

Hypothesis 2: Nordic MNEs prefer JVs over WOSs in their ownership mode strategy in the transition periphery host economies with high economic freedom distance.

3. RESEARCH METHODS

3.1 Variables and Data Sources

Dependent Variable: The dependent variables of the study are establishment mode strategy and ownership mode strategy. The dummy variable establishment mode is coded 1 for acquisition and 0 for greenfield investment. The dummy variable ownership mode is coded 0 for JV and 1 for WOS. The data for these variables and other firm and industry level control variables are based on the internal FDI database built on published data on the investment (stock exchange news, press releases, company websites, Thomson One, and/or the annual reports) of investing Nordic MNEs. One of the authors has been following FDI strategies of Nordic MNEs for the past three decades and the information from this internal FDI database has been updated continuously during this time period.

Economic Freedom Distance: The key independent variable of the study, i.e. economic freedom distance, is based on economic freedom of the world annual reports (Gwartney et al., 2008, 2009). Economic freedom of the world annual reports measure a country's openness to international business and trade by measuring and ranking the country along five major dimensions/pillars i.e. *Size of government, Legal structure and security of property rights, Access to sound money, Freedom to trade internationally and Regulations of credit, labour*

and business. These pillars are further divided into different categories and finally a country's summary rating scores (1-10) are developed.

Economic freedom of the world reports use the data from World Economic Forum, World Bank, International Monetary Fund, United Nations and World Trade Organization to measure these variables (see e.g. Gwartney et al., 2008, 2009). A higher country score represents openness of the economy to international business, presence of strong market institutions, ease of business for foreign firms and sound financial and fiscal policies. The data from economic freedom of the world reports have been used widely in studies in the fields of international and institutional economics and international political economy studies (see e.g. Cole, 2003; Feldman and Slemrod, 2009). Moreover, DiRienzo et al. (2007) and Arslan and Larimo (2012) also used this source to study different aspects of international management strategies of the firms. Therefore, it can be said that economic freedom of the world annual reports are a reliable source for the analysis of the country level differences and their impacts on different economic and business issues. Following Kogut and Singh's (1988) formula for cultural distance, the study uses a similar formula for the calculation of economic freedom distance, as it incorporates the variation in the sample along different dimensions, which is a more realistic incorporation of distance rather than merely calculating the differences in country scores. The economic freedom distance in our study is calculated as follows:

$$EFD_j = \sum_{i=1}^5 \left[\frac{(I_{ij} - I_{ik})^2}{V_i} \right] \div 5$$

where EFD_j is economic freedom distance between country j and Finland/Sweden/Denmark/Norway, I_{ij} is country j 's score on the i th economic freedom dimension/pillar, I_{ik} is the score of Finland/Sweden/Denmark/Norway on this dimension, and V_i is the variance of the score of the dimension. Finally, it is important to mention that this paper uses economic freedom distance values in the year of investment or the nearest available year, rather than using single values for the FDI strategy analysis during a time period of 20 years. (1990-2009).

Control variables: In order to analyse the effects of the independent variables on the establishment mode choice in a comprehensive manner, we control for selected investing firm, investment, and host country specific variables that have been found significant in past

IB studies. The operationalizations of the control variables, and examples of earlier studies where similar operationalizations have been used, are presented in the following Table 1.

----Please insert Table 1 about here----

3.2 Study Sample Description

The empirical sample for the current study consists of 348 FDIs made in the manufacturing sector by 146 Nordic firms (Denmark, Finland, Norway and Sweden) in host economies located in the transitional periphery of Commonwealth of Independent States (CIS) and South-Eastern Europe during 1990-2009. The host countries in the study sample include Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Romania, Russia, Serbia, Ukraine, and Uzbekistan. The study sample includes firms with large international experience (e.g. over 150 international investments) as well as firms with very little experience (no previous foreign investment). Similar heterogeneity can be observed in the case of host country experience, where some firms had high previous experience (highest 11 years) while for some others, this was their first investment in that particular country. The key characteristics of the study sample are summarised in Table 2.

----Please insert Table 2 about here----

Statistical Method: The dependent variables of the study, i.e. establishment mode choice and ownership mode choice, are dichotomous. Therefore, stepwise binomial logistic regression is used to analyse the impacts of control and independent variables on FDI establishment and ownership mode choices of MNEs. The use of this statistical approach is justified by the fact that logistic regression techniques have the ability to incorporate a wide range of diagnostics, the dichotomous characteristic of the dependent variables of the study, and the mix of continuous and categorical independent variables used in this study (Hair et al., 1998). Binomial logistic regression analysis has been frequently used in the studies addressing FDI establishment mode strategy (e.g. Larimo, 2003; Dikova and van Witteloostuijn, 2007; Dikova et al., 2010; Arslan and Larimo, 2011) and ownership mode strategy of MNEs (e.g. Anderson and Gatignon, 1986; Padmanabhan and Cho, 1996; Hennart and Larimo, 1998; Kaynak et al., 2007; Arslan and Larimo, 2010; Dikova, 2012). Therefore, it has proved to be a useful statistical technique to analyse both establishment and ownership mode choices of MNEs in different IB studies and this study also employs it.

Binomial logistic regression is used to test the hypotheses because both dependent variables are dichotomous. The binomial logistic regression model is formally expressed as

$$P (y_i=1) = 1/(1+ \exp (-a-X_iB))$$

Where y_i is the dependent variable, X_i is the vector of independent variables for the i th observation, a is the intercept parameter and B is the vector of regression coefficients (Amemiya, 1981). The recent version of SPSS, i.e. PASW 21, is used for the binomial regression analysis in this study. It should be noted that separate tests are conducted for FDI establishment and ownership mode strategies in this study. In the case of establishment mode choice, the dependent variable has the value 1 if the establishment mode choice is acquisition. Therefore a positive regression coefficient indicates that a particular variable increases the probability of acquisition in establishment mode choice. Moreover, in the case of ownership mode choice, the dependent variable has the value 1 if the ownership mode choice is WOS. Therefore a positive regression coefficient indicates that a particular variable increases the probability of WOS formation in the ownership mode choice by MNEs.

4. RESULTS

A correlation analysis is conducted before logistic regression tests (see Appendix 1) in order to detect any multicollinearity among independent variables. Following Belsley et al. (1980) and Pallant (2007), additional multicollinearity diagnostics (tolerance and variance inflation factor (VIF)) were also conducted. According to Wetherill (1986), the VIF values for independent and control variables used in regression analysis should not exceed 10. In our study, the VIF values are lower than 4 and consequently, any potential collinearity is not expected to influence the results of logistic regression analysis.

Table 3 displays the results of binomial regression analysis for establishment mode strategy of Nordic MNEs in the transitional periphery of CIS and SEE. The explanatory power of all the statistical models of the study is good, as their chi-square (χ^2) values are significant at $p \leq 0.01$ level. The predictive ability of the statistical models can be assessed by the correct classification rate. Moreover, the statistical models of the study have a higher correct classification rate than the chance rate of 50.1%, which is calculated using the *proportional chance criterion*, defined as $a^2 + (1-a)^2$, where a is the proportion of acquisitions (47.1%) in our sample. The regression models show the correct classification rates from 65.7% to 66.4%; therefore they show 15.6% to 16.3% improvement in the classification rates of the

models. Finally, satisfactory Nagelkerke R^2 values (0.164, 0.169 and 0.179) show the predictive capability of all regression models that is similar to many past IB studies. It is also important to mention that along with doing the regression analysis for the full sample, we have also divided the sample on the basis of FDIs made in Russia vs. FDIs made in other transitional periphery countries, in order to perform detailed analysis as well as observe difference/similarities between these two sub-samples.

----Please insert Table 3 about here----

In Table 3, Model 1 shows the logistic regression estimates for control and independent variables for the full sample, Model 2 for only FDIs made in Russia, and Model 3 for FDIs made in other transitional periphery countries excluding Russia. The results show that in the full sample, host country experience ($p \leq 0.05$), host country risk ($p \leq 0.1$), economic growth in host country ($p \leq 0.05$), cultural distance ($p \leq 0.05$) and Finland dummy ($p \leq 0.1$) are significant control variables. An interesting result concerns the non-significance of international experience, and the significance of host country experience of investing MNEs. The host countries in the transitional periphery started to open up for foreign FDI and MNE activities after 1990 and represented unusual characteristics of transformation to market economy (Bitzenis, 2009; Aslund, 2012). Hence, we believe that the general international experience of investing Nordic MNEs does not have the same level of importance as in other markets. As a result, it can be anticipated that previous host country specific experience provides MNEs with knowledge about the potential good acquisition targets representing established and successful local firms in certain industries and business sectors (Meyer and Altenborg, 2008). Prior IB literature mentions that practices and routines of acquired firms offer certain advantages to the MNEs (Shimizu et al., 2004; Contractor et al., 2014), especially when the host country represents a very different environment like transitional periphery economies. Therefore, such practices and strategies of the acquired firm can provide strategic advantages (e.g. Barkema and Schijven, 2008) to the Nordic MNEs and may offset certain influences of economic freedom distance.

The results further show that high economic growth leads to choice of acquisition, while high cultural distance leads to choice of greenfield investment in the transitional periphery economies of CIS and SEE by Nordic MNEs. It has been mentioned by earlier IB scholars that cultural distance makes the integration of management practices of acquired firm

difficult (Kogut and Singh, 1988; Dikova et al., 2010) and can result in communication problems, leading to low performance and operational difficulties (Harzing, 2002; Meyer and Altenborg, 2008; Dikova et al., 2010). These problems can lead to the preference of greenfield investment by investing MNEs, in order to achieve smooth and fast application of management practices developed and used in the home market (Child et al., 2001; Arslan and Larimo, 2011). The host countries of the transitional periphery in the current study come from very different national and professional cultural backgrounds compared to Nordic countries (Aslund, 2012). Therefore, the preference of greenfield investments over acquisitions by Nordic MNEs is logical in order to achieve internal conformity and fast transfer of organization practices to the subsidiaries in the transitional periphery of CIS and SEE.

The detailed analysis, produced by dividing the sample into two sub samples (FDIs in Russia vs. FDIs in other countries) also shows similar influences of control variables on FDI establishment mode strategy of Nordic MNEs. However, we can observe that Finnish MNEs tended to prefer greenfield investments over acquisitions in case of investments in Russian Federation compared to other transitional periphery economies. This finding can be explained by referring to specific context of Russia i.e. restrictions on acquisitions in many industries, lack of proper acquisition targets and regulative hindrances in post-acquisition restructuring. The results further show that for the main independent variables of the study, economic freedom distance is significant at $p \leq 0.05$ level, and the regression coefficient indicates that high economic freedom distance leads to the choice of greenfield investment as hypothesised. Previous studies concentrating on economies located in the transitional periphery of SEE and CIS found strong linkage of increased FDI flow to economic freedom specific reforms, including low labour market costs and flexibility (Bitzenis, 2009; Bitzenis and Marangos, 2007). We link these findings with FDI establishment mode strategies of Nordic MNEs in the transitional periphery of the EU. Transitional periphery economies represent a very different approach to work culture and labour management compared to developed western economies (Aslund, 2012). Hence, these differences could potentially cause problems; organizational structures and practices in the acquired firms tend to be difficult to change due to inertia (Datta and Grant, 1990; Dikova et al., 2010), and this inertia is expected to be higher in the case of transitional periphery economies. In this situation, the investing MNEs would need to work out how the resources of the acquired firm could be employed into the productive uses that are in line with its own objectives (Contractor et al., 2014); this also causes an additional

cost burden for the MNE (Meyer and Altenborg, 2008). However, the greenfield subsidiary can offer the Nordic MNEs an option to create an organisation that is more similar to the parent organization (Drogendijk and Andersson, 2013). Moreover, investing Nordic MNEs can still be sensitive to the local environment as they can recruit and train suitable local employees in line with practices that fit with the MNEs' international strategy as well as the local regulations (Höpner, 2005; Estrin et al., 2009; Arslan and Larimo, 2011). Therefore, we receive support for Hypothesis 1 of the study.

Table 4 shows the results of binomial regression analysis for ownership mode strategy of Nordic MNEs in the transitional periphery of CIS and SEE. The explanatory power of all the statistical models of the study is good, as their chi-square (χ^2) values are significant at $p < 0.01$ level. Moreover, the predictive ability of the statistical models can be assessed by the correct classification rate. The statistical models for ownership mode choice have a higher correct classification rate than the chance rate of 53.4%, which is calculated using the *proportional chance criterion*, which is defined as $a^2 + (1-a)^2$, where a is the proportion of WOSs (36.8%) in our sample. The regression models show correct classification rates from 71.8% to 73%; therefore showing 18.4% to 19.4% improvement in the classification rates of the models. Lastly, good Nagelkerke R^2 values (0.300, 0.311, and 0.400) further strengthen the significance of the predictive capability of the regression models.

The results of the full sample regression model in Table 4 depicts that control variables including parent MNE size ($p \leq 0.1$), host country risk ($p \leq 0.05$), economic growth in host country ($p \leq 0.05$), timing of investment ($p \leq 0.01$), Finland dummy ($p \leq 0.01$) and Sweden dummy ($p \leq 0.01$) are significant. The results show that large Nordic MNEs preferred the formation of WOSs in the ownership strategy in the transitional periphery countries of CIS and South-Eastern Europe. The regression coefficients further show that host country risk is a significant variable for ownership mode choice and Nordic MNEs preferred JV formations when the level of risk was higher in the host transition economies. Previous IB studies also show that high host country risk is associated with the adoption of entry modes involving lower costs and resource commitments (Anderson and Gatignon, 1986; Brouthers and Brouthers, 2003). Therefore, JVs have been found as a preferred choice for the MNEs, which is same as our finding (e.g. Hill et al., 1990; Brouthers and Brouthers, 2003; Larimo and Arslan, 2013).

----Please insert Table 4 about here----

It can be further observed that high economic growth in the host country leads to the preference of WOSs by the Nordic MNEs. We expect Nordic MNEs to take advantage of high economic growth and market potential offered in transitional periphery economies (e.g. Aslund, 2012) despite risks and uncertainties. Many of the host economies in SEE and CIS like Russia, Bulgaria, Romania and Kazakhstan depicted a commendable growth rate especially in the latter half of the study time period (UNCTAD, 2013). Therefore, formation of WOSs by Nordic MNEs in such cases is understandable. We further observe that timing of investment is highly significant for ownership mode choice at $p \leq 0.01$ level. The regression coefficient for the timing of investment variable shows that FDIIs made later in the sample economies tend to be WOSs, while earlier FDIIs (i.e. during the 1990s) tend to be more JVs. Some previous studies also found that MNEs prefer formation of JVs in transition economies during the early stages of transition (e.g. Peng, 2003; Meyer, 2004). The host countries in our sample from the CIS and SEE were in the early stages of transition during the 1990s and there were also restrictions in many cases on foreign ownership (Bitzenis, 2009 Aslund, 2012), therefore it is understandable that Nordic MNEs formed JVs with local partners. Later, when the host countries stabilised to a certain extent and developed economically as well as institutionally, preference of WOSs formation increased by Nordic MNEs. Finally, the country dummies also show that both Finnish and Swedish MNEs tended to prefer JVs more than WOSs.

The detailed analysis produced by dividing the sample into FDIIs made in Russia vs. FDIIs made in other transitional periphery economies shows some interesting findings. Model 2 in Table 4 shows the regression outputs for FDIIs made in Russia, where the results are similar to the results of the full sample. Model 3 in Table 4 shows the regression results for FDIIs made in other transitional periphery economies excluding Russia. Here, the results seem to differ from the regression results for the full sample and FDIIs in Russia. Economic growth which was significant in both Model 1 and 2 is non-significant here, and cultural distance becomes mildly significant at $p \leq 0.1$ level. The regression coefficients depict that high cultural distance between Nordic countries and host countries in the transitional periphery economies (excluding Russian Federation) lead to the preference of JVs formation by the Nordic MNEs. It has been mentioned in past IB studies that the MNEs operating in culturally distant host countries require greater flexibility in their operations (Brouthers; 2002; Larimo

and Arslan, 2013). The formation of JVs offered Nordic MNEs a viable option to commit fewer resources and consequently reduce the risk (Kogut and Singh, 1988; Tihanyi et al., 2005).

Finally, economic freedom distance is significant at $p \leq 0.01$ level in all three models. The regression coefficients depict that Nordic MNEs preferred the formation of JVs in host countries with large economic freedom distance. This result is in line with Hypothesis 2 and hence, we accept it. It has been mentioned earlier that transitional periphery economies increase uncertainty for investing MNEs due to problems associated with institutional infrastructure (low levels of economic freedom) as well socioeconomic dynamics (Demekas et al., 2007; Aslund, 2012; Estrin and Uvalic, 2013, 2014). Therefore, formation of JVs with local partners by Nordic MNEs can be helpful to counter this uncertainty and ambiguity that arise from high economic freedom distance. Moreover, JVs are expected to be helpful to overcome unfamiliarity hazards (Demirbag et al., 2011) for Nordic MNEs in transitional periphery economies. Moreover, high economic freedom distance also increases operational and establishment costs for investing Nordic MNEs, and JV formation can be helpful to share these costs with established and reliable local partners. JV formation in transitional periphery economies with high economic freedom distance is expected to help investing Nordic MNEs to establish relations with key local players (e.g. Kobernyuk et al., 2014) and try to align their interests with those of the host governments (Meyer 2002, 2004; Chen et al., 2009).

5. DISCUSSION, IMPLICATIONS AND LIMITATIONS

This paper is one of the first studies to address both establishment and ownership mode strategies of MNEs together in the context of FDIs made by Nordic MNEs in a relatively unique context of the transitional periphery economies of the EU. The key independent variable of the study (economic freedom distance) attempts to address market entry specific institutional development in the host transition economies. Our study uses a number of control variables at firm, industry and country level to enhance reliability of the study findings. The study results revealed that some variables are only significant for one or other of the establishment or ownership mode strategies (e.g. host country experience and cultural distance for establishment mode, while parent MNE size and timing of investment for ownership mode). However, some variables like host country risk, economic growth in host

country and economic freedom distance (independent variable) are significant for both strategies. The results revealed that in high risk host countries of the transitional periphery, Nordic MNEs preferred partial acquisition, while in high economic growth host countries, they preferred full acquisition. It is important to mention that some important variables like industry R&D intensity and product diversity are non-significant for both establishment and ownership mode strategies. This shows that FDI by Nordic MNEs in the transitional periphery were not driven by knowledge seeking motives, but rather they wanted to take advantage of market opportunities and low production costs. Finally, high economic freedom distance leads to a preference for greenfield JVs by Nordic MNEs, as we predicted in the study hypotheses.

These study findings have important implications for both theory and practice. The theoretical contribution of our study stems from the application and empirical testing of the economic freedom distance construct in the context of FDI entry strategies of MNEs from small, open and highly internationalized Nordic economies in the transitional periphery of the EU. It has been established in IB literature that internationalization and FDI strategies of these Nordic MNEs tend to differ from the MNEs from large economies like USA, Japan, UK and Germany (e.g. Larimo 2003; Larimo and Arslan 2013). Moreover, the transitional periphery of the EU (see e.g. Totev, 2002; Barry, 2004; Galego et al., 2004; Balkir et al., 2013) has been an under-researched area in IB studies, as most studies tend to concentrate on the CEE region in general, where Baltic states, as well as Poland, Hungary, Czech Republic, Slovakia and Slovenia have been successful in transition to a market economy, and differ significantly from transitional periphery economies. Our study attempts to fill this research gap, and contributes to extant IB literature by analysing both establishment and ownership mode strategies together in this specific context. Our study offers implications for a managerial audience. In particular, managers of Nordic MNEs as well as those from other small, open and high internationalised European economies (e.g. Belgium, the Netherlands, Austria) aiming to invest especially in the manufacturing sector in the transitional periphery of CIS and SEE can gain useful insights from the paper. Based on the study results concerning control variables, it appears that although establishment and ownership mode strategies are related decisions for MNEs expanding to new markets via FDI mode, the study variables have different levels of significance for these strategies in the specific context of transitional periphery host economies. Therefore, the managers need to concentrate more on their previous host country experience (if any), host country risk and economic growth, and

cultural distance in order to devise a viable establishment mode strategy. On the other hand, investing MNE size, host country risk and economic growth deserve special attention from managers in order to amicably address the challenges concerning ownership mode strategy in transitional periphery economies.

Moreover, it is also important for the managers to consider the within-sample variance in the transition periphery economies because a large economy like the Russian Federation has certain attributes that differ from those in small host economies like Serbia for example. As transitional periphery economies represent different and relatively unstable institutional environments compared to the home countries of Nordic MNEs, these differences may result in high uncertainty in decision making for managers. In response to this high uncertainty and large economic freedom distance, MNE managers can benchmark successful peer firms (from same background/operating in same industry) in a particular host economy, and mimic their FDI strategies at the time of market entry.

Our paper does have certain limitations. Firstly, our study separately analyses FDI establishment and ownership mode strategies using binomial logistic regression. However, in future studies multinomial regression could be used to analyse the influences of economic freedom on four categorical dependent variables (partial acquisition, greenfield JV, full acquisition and greenfield WOS). Such an analysis would enhance our understanding of FDI entry strategies in less researched regions of the CIS and SEE. Moreover, this paper only addresses the direct influences of economic freedom distance on FDI establishment and ownership strategy. The future studies could incorporate the potential moderating influences of firm level factors like experience, size, as well as country level factors like candidacy for EU membership on these FDI entry strategies of MNEs in the transitional periphery of the CIS and SEE. Finally, future studies have a possibility to address the concept of transitional periphery economies located next to developed economies with strong institutions, in other regions of the world. Therefore, it can be very insightful, if similar studies are undertaken in the context of central and North America, and Southeast Asia, where economies in transition are geographically located next to developed market economies, offering an interesting research avenue.

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Appendix 1: Descriptive Statistics and Pearson Correlations

	Mean	Std.dev	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
1. Establishment mode	0.47	0.50	1														
2. Ownership Mode	0.37	0.48	-0.207*	1													
3. Economic freedom distance	3.52	1.11	-0.127*	0.304*	1												
4. Industry R&D Intensity	1.43	0.60	0.065	-0.058	-0.248*	1											
5. Parent firm diversification	10.34	9.56	0.215*	-0.111	-0.194*	0.142*	1										
6. International experience of investing MNE	44.52	43.40	0.182*	-0.041	-0.185*	0.083	0.786*	1									
7. Host country experience of investing MNE	3.35	3.84	0.023	0.108	0.074	-0.127	0.233*	0.307*	1								
8. Parent MNE size	6.64	1.99	0.019	-0.118	-0.111	0.010	0.073	0.090	-0.004	1							
9. Host country risk	42.17	13.04	-0.085	0.266*	0.224*	-0.185*	-0.204*	-0.054	0.114	-0.004	1						
10. Economic size of host country	3611.03	2488.86	0.013	0.113	0.140*	0.010	-0.045	-0.034	0.289*	-0.032	0.237*	1					
11. Economic growth in host country	-1.17	6.89	-0.097	0.155*	0.273*	-0.192*	-0.168*	-0.060	0.214*	-0.106*	0.577*	0.442*	1				
12. Timing of investment	9.44	4.94	0.034	-0.307*	-0.328*	0.209*	0.242*	0.075	-0.219*	0.021	-0.628*	-0.484*	0.630*	1			
13. Cultural distance	3.94	1.37	-0.024	-0.145*	-0.043	0.151*	0.003	0.126	-0.194*	0.070	-0.117	-0.257*	-0.228*	0.208*	1		
14. Finland dummy	0.41	0.49	-0.093	0.228*	0.080	-0.144*	-0.199*	-0.279*	0.185*	-0.037	0.143*	0.238*	0.260*	-0.262*	0.563*	1	
15. Sweden dummy	0.30	0.458	0.063	-0.016	-0.098	0.057	0.207*	0.304*	-0.081	-0.022	-0.084	-0.282*	-0.247	0.272*	0.437*	-0.037	1

* Correlation is significant at the 0.01 level (2-tailed).

Table 1 - Control Variables

VARIABLES	OPERATIONALIZATION	REFERENCE(S)
1. Industry R&D intensity	A classification of 4-digit industry SIC Codes into three categories (low tech, medium tech and high tech) based on their value added figures.	Hennart and Larimo (1998); Chen and Hennart (2004); Demirbag et al. (2009)
2. Parent firm diversification	The number of 4-digit SIC codes in which the company was operating based on the annual reports and websites of the firms.	Hennart and Larimo (1998); Vermeulen and Barkema (2001); Larimo (2003)
3. International experience of the investing MNE	The number of foreign manufacturing investments made by the MNE.	Larimo (2003); Kaynak et al. (2007)
4. Host country experience of the investing MNE	The experience in years from the first manufacturing investment of the firm in the host country.	Hennart and Park (1993); Cho and Padmanabhan (1995); Hennart and Larimo (1998); Larimo (2003); Cho and Padmanabhan (2005)
5. Parent MNE Size	Natural log of global sales of the parent MNE in the year before investment changed to Euros.	Vermeulen and Barkema 2001; Larimo, 2003; Demirbag et al. (2008).
6. Host country risk	Euromoney country risk index (scale 1 for very high risk and 100 for extremely low risk; 100 minus the risk index value is used in the statistical analysis).	Cosset and Roy (1991), Click (2005); Arslan and Larimo (2011)
7. Economic size of host country	Economic size of the host country based on the total GDP in the year of the investment (UNCTAD)	Hennart and Larimo (1998); Vermeulen and Barkema (2001); Larimo (2003); Demirbag et al. (2008, 2009).
8. Economic growth of host country	Economic growth (% of GDP growth) in the host country of the investment in the year preceding the investment.	Hennart (1991); Brouthers and Brouthers (2000); Arslan and Larimo (2010, 2011)
9. Timing of investment	2009 minus the year of investment.	Harzing (2002); Demirbag et al. (2009)
10. Cultural Distance	Cultural distance is measured by the Kogut & Singh (1988) composite index, which is based on difference between Nordic countries and host countries along four dimensions of culture identified by Hofstede (1980).	Brouthers and Brouthers (2000); Larimo (2003); Ruiz-Moreno et al. (2007)
11. Finland Dummy	0= FDI's made by MNEs from other Nordic countries; 1= FDI's made by Finnish MNEs	-
12. Sweden Dummy	0= FDI's made by MNEs from other Nordic countries; 1= FDI's made by Swedish MNEs	-

Table 2 - Summary of Sample Characteristics

Sample Characteristic	Description
Establishment Mode Choice	184 (52.9%) greenfield investments, 164 (47.1%) acquisitions of local firms.
Ownership Mode Choice	220 (63.2%) JVs, 128 (36.8%) WOSs.
FDIs by MNEs from a particular Nordic country	Finland: 142 FDIs (40.8%) Sweden: 103 FDIs (29.6%) Denmark: 45 FDIs (12.9%) Norway: 58 FDIs (16.7%)
International Experience of investing firms	Average: 44.52 international investments. Minimum 1 (first) international investment. Maximum: 168 international investments.
Host Country Experience of Investing Firms	Average: 3.35 years. Minimum: 0 years (No earlier FDI in the host country). Maximum: 26 years.
Number of FDIs in particular host country	Belarus (3), Bosnia (1), Bulgaria (14), Croatia (14), Georgia (1), Kazakhstan (8), Romania (37), Russian Federation (226), Serbia (6), Ukraine (36) and Uzbekistan (2).

**Table 3 - Binomial logistic regression estimates of establishment mode strategy
(acquisition = 1)**

Variable	Model 1: Full sample	Model 2: FDIs in Russia	Model 3: FDIs in other countries
Industry R&D intensity	0.440	-0.319	0.242
Parent firm diversification	0.029	0.043	0.001
International experience of investing MNE	0.002	-0.005	0.011
Host country experience of investing MNE	0.23**	0.45*	0.104*
Parent MNE Size	-0.190	0.018	-0.288
Host country risk	-0.115*	-0.32*	0.008
Economic size of host country	0.004	0.001	0.004
Economic growth in host country	0.28**	0.56**	0.45**
Timing of investment	-0.062	-0.117	-0.006
Cultural distance	-0.325**	-0.851**	-0.253**
Finland dummy	0.686*	-1.459**	0.823*
Sweden dummy	0.158	0.769	-0.617
Economic freedom distance	-0.161**	-0.219**	-0.126*
<i>N</i> (Acquisitions)	348 (164)	226 (94)	122 (70)
Model χ^2	36.943***	31.393***	23.297**
-2 log likelihood	444.338	275.489	153.166
Nagelkerke R^2	0.164	0.175	0.169
Correctly classified (%)	65.7	66.4	66.4

Levels of Significance: * $p \leq 0.1$, ** $p \leq 0.05$, *** $p \leq 0.01$

Table 4 - Binomial logistic regression estimates of ownership mode strategy (WOS = 1)

Variable	Model 1: Full Sample	Model 2: FDIs in Russia	Model 3: FDIs in other countries
Industry R&D intensity	-0.377	-0.314	-0.322
Parent firm diversification	0.018	0.019	0.026
International experience of investing MNE	-0.007	-0.005	-0.004
Host country experience of investing MNE	0.001	-0.005	0.034
Parent MNE Size	0.124*	0.240***	-0.23
Host country risk	-0.33**	-0.69***	0.018
Economic size of host country	0.030	0.40	0.010
Economic growth in host country	0.71**	0.144***	-0.03
Timing of investment	-0.109***	-0.126*	-0.159**
Cultural distance	-0.100	0.797	-0.150*
Finland dummy	-1.684***	0.195	-1.567**
Sweden dummy	-0.983***	-0.961*	-1.324***
Economic freedom distance	-0.567***	-0.579***	-0.728***
<i>N</i> (WOS)	348 (128)	226 (88)	122(40)
Model χ^2	89.932***	78.929***	29.570***
-2 log likelihood	367.885	223.219	124.799
Nagelkerke R^2	0.311	0.400	0.300
Correctly classified (%)	71.8	71.7	73.0

Levels of Significance: * $p \leq 0.1$, ** $p \leq 0.05$, *** $p \leq 0.01$