Organizational Responses to Institutional Changes—A Review and an Extension

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Abstract

As economies undergo institutional transition, firms change their internationalization strategies to take advantage of the prevailing institutional environment of the time. Extant studies on firm internationalization have predominantly focused on the effects of host country institutional environments in determining the internationalization strategies of firms. However, recent evidence from emerging market firms indicates that motivations for going international, the choice of international locations and modes of market entry are influenced in part by the institutional environment of the home country. Underlying the successful internationalization of emerging market firms is a transformation in perspective from critical wariness to one involving foreign multinationals in the development process. Drawing upon the experience of Indian firms, this article accounts for the evolution of emerging country multinational enterprises and explains their internationalization by mapping the observed patterns to institutional changes in their home environment. In the process, this article develops propositions that map the internationalization strategies of firms with the maturation of economic institutions in their home country.

Keywords

Institutions, market entry, location choices, emerging markets, FDI motivations

Introduction

A Multinational Enterprise (MNE) is defined as a corporation that (a) engages in Foreign Direct Investment (FDI); and (b) owns or controls value-adding activities in more than one country (Hennart, 2000). The advent of Emerging Economy Multinationals (EEMs) in the international scene is one of the distinguishing features of the contemporary global economy. Since the late 1980s, an increasing number of EEMs from Chile, China, India, Malaysia, Mexico, Russia, South Africa, Thailand and Turkey have become significant sources of outward Foreign Direct Investment. These countries have experienced rapid economic development with their economic institutions undergoing adaptation to free market ideologies (Dixit & Yadav, 2008). Unlike the early path of internationalization of multinational enterprises from advanced markets, EEMs have benefitted by cooperating with global players who have transferred technological and organizational skills (Luo & Tung, 2007). Thus, the success story of EEMs involves a transformation in perspective on the part of their home governments which has ranged from hostility and critical wariness towards inward FDI to one that has involved foreign multinationals to spur growth in the domestic economy.

Theories on internationalization typically account for a firm's motivations of going international and the factors that govern its mode of entry. Existing research has relied extensively on Transaction Costs (TC) theory to explain the entry mode decisions of multinational firms. According to TC theory, MNEs will expand abroad when they can organize interdependencies between agents located in different countries efficiently through hierarchy than markets (Buckley & Casson, 2003; Hennart, 2000; Teece, 1981). Adherents of TC theory have emphasized the importance of asset-based influences on market entry mode choices where high-control modes like wholly owned subsidiaries are preferred when there is a need to safeguard parent firm's assets contributed to its subsidiaries (Hennart & Park, 1993) and low-control modes like joint ventures are

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preferred when a firm requires complementary assets for international expansion (Hennart, 1988).

However, market failure and the pursuit of efficiency maximization do not provide a full account of why MNEs exist and explain the motivations underlying their entry mode choices (Lu, 2002). Also, with costs such as tariffs, logistics, regulations and other non-tariff barriers declining worldwide, researchers have contested the importance given to transaction cost variables as determinants of entry mode choice (Duffy, 1996). In addition, the TC approach fails to include compatible sociological approaches that emphasize how institutional practices and structures play a role in restricting a firm's entry choice (Davis, Desai & Francis, 2000; Lu, 2002). Since institutional practices and structures assume a status of orthodoxy in an institutional environment, violating these institutional structures will question a firm's legitimacy and make survival difficult (Davis *et al.,* 2000). Hence, a firm's internationalization decisions are guided by the need to pursue institutional legitimacy in addition to achieving transaction cost efficiency. The institutional context of the host country thus significantly influences entry mode choices and location decisions depending upon the type of organizational capabilities the firms possess in connection to overseas expansion (Davis *et al.,* 2000; Roberts & Greenwood, 1997).

Despite the attention given to institutional factors in theories of firm internationalization, extant studies have investigated market entry and location decisions solely from the perspective of the host country institutional environment (Ang & Michailova, 2008; Davis *et al.,* 2000; Lu, 2002). Though the role played by home environment variables in providing support for globalization activities is known in the literature, very few studies have investigated their impact on a firm's choice of market entry modes (Li & Yao, 2010; Luo & Tung, 2007; Witt & Lewin, 2007). For example, the Indian market was characterized by a lack of international competition and a domination of state-owned firms in the economy until the late 1980s. With the passage of time, Indian firms have displayed an inclination to globalize their operations for countering competition from foreign firms and tapping new opportunities that arise overseas. Although Indian firms were relatively late in arriving at the international scene, there has been a constant increase in the magnitude of their outward investments. This has been made possible through support from their national institutions, which has provided Indian enterprises with easier access to sufficient capital, knowledge and know-how to expand overseas. Institutional support has played a central role in increasing the competitiveness of Indian MNEs vis-à-vis the developed country multinationals. The destinations chosen for international activity, the sectorial focus of investments, the motivational drivers for internationalization and choice of entry strategies of firms have also constantly changed with the magnitude of outward investments (Kumar, 2008). To explain the dynamics of this change in internationalization strategies, we have to go beyond transaction costs variables and the host environment to look into how the institutional forces in the home country environment shape organizational responses during different stages of institutional development.

This article is organized into three sections. In the first section, I provide a factual account of the different phases in the evolution of Indian multinational firms and build a case for studying the internationalization of emerging economy firms from the perspective of their home country institutional environment. I do this by tracing institutional evolution in India over three decades and mapping variations in internationalization strategies of firms to different stages of institutional development. In the second section, I present a review of institutional theory in the context of multinational enterprises. In the third section, I categorize a nation's institutional profile across regulatory, normative and cognitive dimensions and demonstrate how the differences in institutional profiles between two countries determine the choice of certain internationalization strategies. Specifically, I use the concept of institutional distance to explain the choice of geographic markets and market entry/establishment modes.

Phases of Internationalization of Indian Firms

In this section, I trace the evolution of the Indian MNE to study the emerging patterns in their internationalization. The internationalization history of Indian firms can be divided into three major phases (Nayyar, 2007; Pradhan, 2007): (a) The Pre-liberalization or the Restrictive Policy Phase (Before 1990s), (b) The Per-missive Policy Phase (1990–2000) and (c) The Liberal Policy Phase (2000–onwards).

The Restrictive Policy Phase

During the 1970s, the early policy of the Indian government toward outward FDI permitted only minority participation

of Indian companies by way of export of capital goods. This was done to prevent cash outflows from the country to ensure domestic capital formation and address foreign exchange scarcity. In 1978, an Inter-Ministerial Committee in the Ministry of Commerce was set up to clear proposals for Overseas Investments. In this pre-liberalization phase, the outward FDI activity of Indian enterprises was largely concentrated in developing countries. The share of investments in developed countries increased to more than a third during the 1990s, yet the bulk of the activity (63 per cent) remained concentrated in developing countries (Kumar, 2008). Sources of finance for pursuing foreign investments were very limited before the Export–Import bank was created in 1980s to provide equity capital and loans for Indian companies investing overseas. Also, a bulk of outward FDI was concentrated in the manufacturing sector (67 per cent) and the services sector (32 per cent) with a negligible share of the extractive sector. Moreover, the outward investments made by Indian companies in the 1970s and 1980s were mostly Greenfield and market-seeking, designed to exploit the revenue productivity of their scaled-down technology and capital goods adapted to developing country situations. In addition, the sectoral concentration of international activity was in the relatively matured technology areas of manufacturing, such as metal products, edible oil refining, paper and light engineering (UNCTAD, 2005).

The Permissive Policy Phase

The Indian Government revised its policy governing outward investments as a part of economic reforms since 1991. It put in place an automatic approval system for overseas investments and introduced cash remittances for the first time. There was an upper limit placed on the total outflow of investments which was further subject to constant revision. In 1992, the total value of investment was restricted to $2 million with a cash component not exceeding $0.5 million in a block of 3 years. In 1995, the Government introduced a fast-track route through a single window created in the Reserve Bank of India and investment limit was raised from $2 million to $4 million. However, any investments beyond $4 million required approvals under Normal Route at the Special Committee level. Investment proposals in excess of $15 million were considered by Ministry of Finance with the recommendations of the Special Committee and generally approved if the required resources were raised through the Global Depository Receipt (GDR) route. In 2000, the Government introduced the Foreign Exchange Management Act (FEMA). After the introduction of FEMA, the policy with respect to outward investment was overhauled and the limit for investment was raised to $50 million. During this phase, internationalization activity was dominant among the mid-size companies mostly belonging to the IT services and Pharmaceuticals sector (Kumar, 2008). As exports in these areas require a local presence, outward investments were undertaken by Indian companies to support their exports. Hence, most of the outward FDI during the 1990s were channelled to support trade activity. Firms in this period sought markets where demand for Indian products and services existed and served them through the export route. Their investments were marked by cost effective processes and/or resource seeking for medium technology investments to support exports with local presence. While some firms continued to favour Greenfield investments during this period, some engaged in Direct Exports as well. Another noteworthy occurrence during this phase is the marked shift in the pattern of international activity to mid-high income countries (40 per cent) and developed countries (35 per cent) (UNCTAD, 2005).

The Liberal Policy Phase

The Indian Government ushered in a new era of policy changes in the beginning of the previous decade. Earlier, companies were allowed to invest 100 per cent of the proceeds of their American Depository Receipt/GDR issues for acquisitions of foreign companies and outward direct investments. This limit was raised in March 2002 to $100 million for automatic route. The policy on outward FDI was liberalized further in March 2003 with the Government permitting Indian companies to invest up to 100 per cent of their net worth under the automatic route. This limit was subject to further revision as it went up to 200 per cent of net worth in 2005, to 300 per cent of net worth in 2007 and finally to 400 per cent of net worth in 2008 to facilitate large acquisitions as the foreign exchange reserves of India built up (Gopinath, 2007). By gradually increasing the limits on FDI outflow, the governmental policy seems to have managed the problem of relative foreign exchange scarcity without affecting the global competitiveness of the Indian firms. In addition to the policy measures, the government directed commercial banks to extend credit to Indian companies for outward investments. In November 2006, the prudential limit on the bank

financing was raised from 10 per cent to 20 per cent of overseas investment (Kumar, 2008). In order to facilitate Leveraged Buy Outs (LBO) in international financial markets, the government allowed Indian firms to float special purpose vehicles in 2005 (UNCTAD, 2005). The policy changes that define the institutional transitions in the Indian economy have been summarized in Table 1. The motivational drivers, entry strategies and market location choices of Indian firms across three phases of institutional evolution have been summarized in Table 2.

Thus, the evolution of Indian multinationals provides a strong case for studying the influence of the home country institutional environment in determining the internationalization strategies of firms. In the following section, I present a brief review of institutional theory in the context of MNEs to provide the theoretical base that I will later adopt to explain the patterns of strategic behaviour observed in the internationalization of Indian MNEs.

Institutional Theory and the Multinational Corporation

Although the study of institutions has a long tradition in sociology, it was two papers by Meyer and Rowan (1977) and Zucker (1977) that introduced to us what later became known as the new institutionalism. In addition, the works of DiMaggio and Powell (1983), Tolbert and Zucker (1983) and Meyer and Scott (1983) established the conceptual foundations of organizational institutionalism and have set the course of research since then. Institutions are defined in economics as 'humanly devised constraints that shape human interaction' (North, 1990). An institution is an organization that has moved from being an instrument to becoming a meaningful community (Selznick, 1957). Organizational institutionalism defines institutions as 'a set of rules, norms and values that help generate a regularity of behaviour of all actors within a domain' (Scott, 1991). Although institutions function to provide stability and order, they themselves are subject to change—both

Table 1. A Summary of Institutional Changes in the Indian Economy

Phase of Institutional Transition	Developments
Restrictive Policy Phase (1970–1990)	1978: Setting up of an Inter-Ministerial Committee under the Ministry of Commerce to clear proposals for Overseas Investments.
	1982: Creation of the Export-Import (EXIM) Bank to integrate India's foreign trade and investment with its overall economic growth.
Permissive Policy Phase (1990–2000)	1991: Establishment of an automatic approval system for overseas investments and introduction of cash remittances for the first time.
	1992: Upward revision of the cap on the total value of outward investment to $2 million.
	1995: (a) Introduction of fast-track route through a single window created in the Reserve Bank of India to facilitate globalization. (b) Upward revision on the investment limit from $2 million to $4 million. Investment proposals in excess of $15 million were considered by Ministry of Finance with the recommendations of the Special Committee and generally approved if the required resources were raised through the Global Depository Receipt (GDR) route.
	2000: Introduction of the Foreign Exchange Management Act (FEMA). After the introduction of FEMA, the policy with respect to outward investment was overhauled and the limit for investment was raised to $50 million.
The Liberal Policy Phase (2000 Onwards)	2002: Upward revision of investment limits for foreign acquisitions via ADR/GRD increased to $100 million through the automatic route.
	2003: Firms permitted to invest 100 per cent of their net work overseas through the automatic route. Subsequently revised to 200 per cent in 2005, 300 per cent in 2007 and 400 per cent in 2008.
	2005: Floating Special Purpose Vehicles (SPVs) to facilitate acquisitions through Leveraged buyouts (LBOs).
	2006: Prudential limit on the bank financing raised from 10 per cent to 20 per cent of overseas investment.

Source: Developed by the author.

Table 2. A Summary of Motivational Drivers, Entry Strategies and Location Choices of Indian Firms across Three Phases of Institutional Evolution

Organizational Decisions	Restrictive Policy Phase (1970–1990)	Permissive Policy Phase (1990–2000)	Liberal Policy Phase (2000 Onwards)
Strategic Motivations for Internationalization	Market-seeking Investment	Resource-Seeking Investments	Asset-Seeking Investments
Industry Areas/Sectors Targeted	Low Technology, Light Engineering	IT Services, Pharmaceuticals	Metals, Pharmaceuticals, Automobiles
Modes of Market Entry	Greenfield Investments	Greenfield Investments	Acquisitions and Greenfield Investments
Investment Locations	Developing Countries	Developing and Developed Countries	Resource-rich Developed Countries

Source: Adapted from Kumar (2008).

incremental and revolutionary (Dacin, Goodstein & Scott, 2002). Hence, recent conceptualizations have viewed institutions as 'multifaceted, durable social structures, made up of symbolic elements, social activities and material resources' (Scott, 2001). Institutions thus represent enduring features of social life that are transmitted across generations, thereby giving solidity to social systems across time and space (Giddens, 1984). Institutions impose restrictions on social systems by defining legal, moral and cultural boundaries and by separating legitimate from illegitimate activities. That is, in addition to providing guidelines and resources for acting, institutions also prohibit and constrain organizational action. Hence, the home and host country institutional environments can affect an MNEs strategic response by imposing constraints on its strategic actions.

Neo-institutionalism conceptualizes an organization's environment as a field. An organization's field determines socially acceptable patterns of its structure and behaviour. DiMaggio and Powell (1983) defined an organizational field as 'those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies and other organizations that produce similar services or products'. Organizational fields encompass populations of competing organizations as well as inter-organizational relationships (Powell & DiMaggio, 1991). Organizational fields consist of diverse organizational forms that undergo structuration over a period of time. As fields mature, powerful forces emerge that push organizations which experience a push towards homogenization and make them resemble one another.

Institutional processes are set in motion by regulative, normative and cultural-cognitive elements. These elements constitute the building blocks of institutional structures which in turn give rise to elastic fibres that resist change (Scott, 2001). The process of institutionalization occurs through three mechanisms of diffusion: 'coercive', which occurs when external constituents, typically powerful organizations, including the state, cajole or force organizations to adopt an organizational element; 'normative', which arises from professionalization projects; and 'mimetic', which occurs when uncertain organizations copy each other's actions either because they are believed to be rational or because they do not want to be left behind. Organizations conform to (or become isomorphic with) their institutional context in order to signal their social fitness and gain legitimacy in the eyes of institutional actors. They avoid social censure, minimize demands for external accountability, improve their chances of securing necessary resources and raise their probability of survival by appearing rational to their critical constituencies (Meyer & Scott, 1983). Coercive isomorphism results when organizations get motivated to avoid sanctions from organizations on which they are dependent. Normative isomorphism occurs when organizations are motivated to respect social obligations. Mimetic isomorphism occurs when organizations are driven by their understanding of others' successful behaviours. However, when conformance to institutional rules conflicts with an organization's quest for technical efficiency, the conformity is likely to be ceremonial that results in surface isomorphism. Organizations achieve this conformity by deliberately decoupling their symbolic elements from the technical core. This decoupling is more likely to occur when the demands and prescriptions of institutional contexts contradict the exigencies of technical contexts. Decoupling can also occur when multiple institutions often place inconsistent demands and prescriptions on the organizations.

MNEs operate in different countries with varying institutional environments and face diverse pressures from their home and host institutional environments.

These pressures have been identified to considerably influence a firm's behaviour in an international context. An MNE lacks knowledge of the local environment, its practices, its customs, and its regulations and hence suffers from the 'liability of foreignness' (Zaheer, 1995). This liability often manifests as an increase in various costs, which can be chiefly classified into two categories: unfamiliarity hazards and relational hazards. 'Unfamiliarity hazards' arise from lack of knowledge of the host environment (Caves, 1971). 'Relational hazards' arise from problems firms face in managing partners at an international location. Relational hazards impose costs of monitoring, dispute settlement, opportunistic behaviour of local partners and lack of trust in unknown partners (Buckley & Casson, 1998; Henisz & Williamson, 1999). In addition to cost disadvantages, MNEs are also exposed to different legitimacy standards compared to domestic firms and are expected to do more than the domestic firms to establish reputation and goodwill (Kostava & Zaheer, 1999). When host-country institutions lack sufficient information about the MNE, they use stereotypes and impose different criteria to judge MNEs. Thus, when operating in multiple countries, the challenges facing MNEs increase with increase in the complexity of the organization, legitimating environment and process of legitimization (Eden & Miller, 2004).

Institutional Distance and Internationalization

The extent of similarity or dissimilarity between the host and home country institutional environments is measured in the literature as institutional distance (Gaur & Lu, 2007; Kostava & Zaheer, 1999). In sociology, institutional distance is estimated based on the three pillars of institutional environment, viz., the regulative, normative and cognitive pillars (Scott, 2001). The 'regulative' pillar refers to the formal rules and regulations as sanctioned by a state (North, 1990). The 'normative' pillar refers to legitimate means available to an organization to pursue its goals (Scott, 2001). The 'cognitive' pillar refers to the beliefs and value system that is embedded in a society in which an organization operates (DiMaggio & Powell, 1983).

On the other hand, scholars of political science have captured the essence of regulative distance by defining an alternative concept called 'political distance'. Political distance is a dimension of institutional distance that captures differences in government and political institutions between two countries. According to political science scholars, the greater the political distance faced by foreign firms, the more difficult it is for them to anticipate changes in the host country (Gaur & Lu, 2007). Scholars in economics have furthered a concept of 'economic distance' that captures cross-country differences in patterns of exchange, economic structure, market orientation and market stability (Ghemawat, 2001; Miller & Parkhe, 2002). According to them, similarity in economic institutions indicated by smaller economic distance encourages economic exchange. However, this dimension has not received adequate research attention, perhaps because it is not a key factor identified in institutional economics or new institutionalism (Bae & Salomon, 2010). Researchers in organization studies have also adopted informal dimensions of institutional distance like the 'cultural distance' that compares countries on beliefs, values and customs (Hofstede, 2001; Scott, 2001). However, the essence of cultural distance appears to be subsumed by the broad dimension of 'cognitive distance' employed by sociologists. Hence, for our discussion in this article, I will primarily rely on the conceptualization of sociologists and define institutional distance as the extent of similarity or dissimilarity between regulative and normative distances. In this conceptualization of institutional distances, I have grouped the normative and cognitive aspects of institutions into one concept because these two aspects of institutions are quite similar to one another (Scott, 2001). Together, I use the regulative and normative distances to explain the differences in institutional environments between the home and host countries.

Organizational Responses to Institutional Changes

When the institutional distance between countries is small, the costs imposed by unfamiliarity and relational hazards are marginal or even negligible because of minimal requirements for learning. Moreover, the similarity in the regulative environment reduces the costs a firm incurs in learning about its host environment and enables the firm to partly overcome its liability of foreignness. In the early phase of institutional transition in the domestic economy, the home country institutions are usually poorly developed and unsupportive of overseas expansion. Firms are expected to finance their overseas ambitions primarily through their internal accruals. Since overseas expansion involves an increase in costs of doing business abroad, firms intend to target overseas locations of comparable institutional

environments. For example, during the restrictive policy phase in India, governmental regulations restricted the amount of capital a firm can own abroad and financial institutions were underdeveloped to support overseas expansion projects. This period marked the early stage of institutional transition in the Indian economy when a slew of reforms were introduced to increase the limit on overseas capital holding. Since capital was hard to come by, Indian firms tried to minimize their costs of doing business abroad by investing in countries that were situated at a smaller institutional distance. Specifically, the Indian MNEs concentrated their international operations in comparable institutional contexts of Asian and African countries that were characterized by weakly developed institutions. Since the countries targeted by Indian MNEs for overseas expansion were similar to each other in terms of regulatory and normative institutions, the institutional distance between India and these countries was relatively small. Hence, by expanding to countries with similar institutional profiles, an MNE typically does not face challenges in meeting legitimacy requirements in their home and host country environments. Moreover, the similarity in regulative and normative institutions ensures that the costs associated with unfamiliarity and relational hazards are negligible. This reduces the amount of risk in a firm's overseas investments, thereby encouraging firms to enter international markets through high control modes like Wholly Owned Subsidiaries (WOS). This inclination of firms to expand via high control modes is evident from the profile of overseas investments made by Indian firms prior to 1990.

Proposition 1: In the early phase of institutional transition in their home environment, emerging market firms will show an inclination to carry out their internationalization activities in countries located at a smaller institutional distance from them.

Proposition 2: In the early phase of institutional transition in their home environment, emerging market firms will show an inclination to expand overseas through high control modes.

However, as the institutions in the domestic economy mature, the cost advantage resulting from investing in countries at smaller institutional distance starts experiencing diminishing returns to scale. The returns from these subsidiaries would no longer be sufficient to fuel the growth ambitions of the MNE. As MNEs seek growth opportunities globally, they are again exposed to unfamiliarity and relational hazards in their environment that impose costs on doing business abroad. However, as economies mature, raising capital for overseas expansion becomes easier than before. The investment motivations of MNEs are expected to be no longer guided by the desire to achieve cost-efficiencies resulting from investing in countries with similar regulative and normative institutions. Alternatively, during the later phases of institutional transition, firms are expected to pursue growth opportunities by targeting investments in countries which are at a larger regulative distance. There are two potential benefits that can accrue to a firm by investing in countries with dissimilar institutional environments: (a) As the institutional distance between the home and the host country increases, the differences between resources in the home and host country will become more substantial, thereby presenting more potential benefits from institutional arbitrage. For example, an Indian MNE can choose United States over China to set up its research and development centre because of a more advanced regulatory regime for patent protection in the United States and greater emphasis on technology and innovation among US firms (Gaur & Lu, 2007). (b) The investments can enhance the legitimacy of the organization vis-à-vis its global competitors and help the firm address its liability issues. For example, the acquisition of Tetley enabled Tata tea to overcome its liability of foreignness by leveraging the reputational capital of the acquired brand.

Proposition 3: In the late stages of institutional transition in their home environment, emerging market firms will internationalize by investing in countries that are at a larger regulative distance from them.

Post-liberalization, institutional development in India has been rapid with the national government reigning in a host of policy changes that has enabled easier access to capital and quick regulatory clearance for overseas investments. The acquisition of Tetley by Tata Tea in 2000 for $407 million was a watershed moment in the internationalization of Indian enterprises. The nature of acquisition was unprecedented in terms of the overseas investments made by firms from emerging economies. It was also the first time that an Indian company acquired a major industry champion in the West that was much bigger in size than itself through leveraged buyout. This acquisition was particularly legitimacy-enhancing as it provided Tata Tea access to a global brand, worldwide marketing network and packaging technology of Tetley. Similarly, in the case of China, a country with comparable institutional

development to that of India, manufacturing companies like Lenovo, TCL and Nanjing Auto have made acquisitions for technology and brands, which reflect asset-seeking motives as institutions matured in their domestic economy (Aguiar M., & Group, 2007; cited in Kumar, 2008).

When acquiring assets in developed markets, where the normative institutions differ substantially between the home and the host countries, the costs imposed by unfamiliarity hazards are expected to be high. This is because decision-makers usually lack the cross-cultural awareness, understanding of the task environment and the prevailing values and beliefs of the society. However, in spite of the costs imposed by relational hazards, I expect the firm to show an inclination to expand inter-nationally through the acquisition route. First, the home environment support for going global and acquiring assets overseas positively influences a firm's decision to make acquisitions abroad. Second, there is an increasing willingness among global players to share and sell strategic resources and offshore availability of standard technology. Third, increasing competition from global rivals encourage firms to make risky investments to gain a competitive foothold in global markets (Luo & Tung, 2007).

Proposition 4: In the late stages of institutional transition in their home environment, emerging market firms will show an inclination to expand overseas through the acquisition route.

Discussion and Future Research

In this article, I have studied the influence of home institutions in determining the internationalization patterns of Indian firms. I demonstrated how the evolution of Indian MNCs has closely followed the path of the country's economic development. I looked at the maturation of institutions during three phases of institutional transition in the Indian economy and explained how the motivations for internationalization, the choice of international locations and the mode of market entry have varied during each phase of internationalization. This study advances theory in the area of emerging market firm internationalization by synthesizing the FDI location and market entry patterns during institutional transition. This study helps us to understand how the maturation of institutions and the pressures of legitimacy from sources, internal and external to an organization, shape the evolution of organizational strategic behaviour in a multinational context.

Though I have associated the maturation of the home institutional environment with a firm's inclination to seek strategic assets abroad, I also find evidence of market-seeking and natural resource-seeking Greenfield investments made by Indian firms and firms from comparable institutional environments. Some examples include investments made by Oil and Natural Gas Corporation (ONGC Videsh) in Russia and Sudan and Tata Power's investments in coal mines of Indonesia. These examples indicate an industry-level variation in FDI motivations with mining and extraction industries showing an inclination towards resource-seeking investments while manufacturing and service industries seem to be driven by asset-seeking motivations. Thus, future research should look at the influence of a firm's FDI motivations and the role of industry effects in determining its choice of market entry and location choice decisions.

For all its interesting insights, this study is not without its limitations. The process of 'imprinting' (Scott, 1987) imposes period effects on organizational patterns that have propagated since its founding. Though I have accounted for a firm's strategic response to an impending institutional change, there is generally a time lag between the onset of institutional change and an organization's response to it. A possible explanation could be the impediment faced by an organization from political forces within it that resist change. Though I have attempted to generalize our findings from the specific patterns of internationalization of Indian and Chinese firms, only an empirical study can enable us to ascertain the extent to which the theory can be generalized to similar institutional contexts. Hence, another direction of future research is to test the hypotheses across different institutional environments to ascertain the external validity of the theory being developed. Another research area is to develop objective measures for 'early' and 'late' stages of institutional transition in a manner that the results of different stages of institutional development can be compared across firms operating in different institutional environments.

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