



REVIEW ARTICLE

The construct of institutional distance through the lens of different institutional perspectives: Review, analysis, and recommendations

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Abstract

This paper presents a review and critique of the 20-year-old literature on institutional distance, which has greatly proliferated. We start with a discussion of the three institutional perspectives that have served as a theoretical foundation for this construct: organizational institutionalism, institutional economics, and comparative institutionalism. We use this as an organizing framework to describe the different ways in which institutional distance has been conceptualized and measured, and to analyze the most common organizational outcomes that have been linked to institutional distance, as well as the proposed explanatory mechanisms of those effects. We substantiate our qualitative review with a meta-analysis, which synthesizes the main findings in this area of research. Building on our review and previous critical work, we note key ambiguities in the institutional distance literature related to underlying theoretical perspectives and associated mechanisms, distance versus profile effects, and measurement. We conclude with actionable recommendations for improving institutional distance research.

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INTRODUCTION

International business scholars have long recognized the importance of national context and contextual embeddedness of organizations (Westney, 1993), and have studied the impact of “distance”, i.e., cross-country contextual differences, on firms’ strategies, management practices, and organizational outcomes (e.g., Johanson & Vahlne, 1977; Kogut & Singh, 1988; Kostova & Zaheer, 1999). Given that conducting business across borders is a defining characteristic of multinational companies (MNCs), some have concluded that “essentially, international management is

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management of distance" (Zaheer et al., 2012: 19). Reflecting the different domains of national context, scholars have examined different types of distance including cultural (e.g., Beugelsdijk, Kostova, Kunst, Spadafora, & van Essen, 2018b; Kirkman, Lowe, & Gibson, 2006, 2017; Kogut & Singh, 1988; Shenkar, Luo, & Yeheskel, 2008), psychic (e.g., Dow & Karunaratna, 2006; Johanson & Vahlne, 1977), geographic (e.g., Beugelsdijk & Mudambi, 2013; Hakanson & Ambos, 2010), economic (e.g., Ghemawat, 2001), and others.

Since its introduction in the literature in the mid-1990s (Kostova, 1996, 1997), the construct of institutional distance has gained prominence in international business research (e.g., Aguilera & Grøgaard, 2019; Bae & Salomon, 2010; Berry, Guillén, & Zhou, 2010; Beugelsdijk, Ambos, & Nell, 2018a; Fortwengel, 2017; Jackson & Deeg, 2019; Zaheer, Schomaker, & Nachum, 2012). Broadly defined as the difference between the institutional profiles of two countries, typically the home and the host country of an MNC (Kostova, 1996), institutional distance has quickly become one of the most widely used types of distance in this research. The interest in institutional distance has been triggered by the rapid expansion of MNCs to markets that are substantially different from their home countries. With increased globalization, developed country MNCs are finding themselves in unfamiliar territories, as they enter emerging markets and developing and transition economies. These markets are characterized by uncertainty and ambiguity, high economic and political risks, unusual complexity, and major deficiencies, collectively termed "institutional voids." (Khanna, Palepu, & Sinha, 2005). Likewise, a growing number of emerging market MNCs are aggressively expanding to the most competitive markets in the world, which often operate under very different economic systems and institutional rules (Fortune, 2018). Even if they do not directly invest abroad, many companies are participants in global production networks, which indirectly expose them to multiple foreign environments (Levy, 2008). Thus, understanding cross-country differences and their impact on business, and learning how to navigate successfully across diverse environments have become front-and-center tasks for global managers.

As argued in the original research introducing the institutional lens as an alternative to culture (Kostova, 1996, 1997), institutional distance provides a broader view of national contexts, encompassing not only cultural but also regulatory and cognitive

elements (Kostova, 1996; Scott, 1991). Institutional distance also allows the capturing of the dynamic aspects of context, reflecting important institutional changes in countries throughout the world. Theoretically, it can be more precise in its predictions than cultural distance if analyzed with regard to a specific issue, for example, quality management (Kostova, 1996) or entrepreneurship (Busenitz, Gomez, & Spencer, 2000). Over time, this work has been enriched by many contributions that have further developed the construct, expanding and modifying its conceptualization, introducing new ways of operationalization and measurement, and incorporating it in hundreds of studies of different international business phenomena (e.g., Bae & Solomon, 2010; Berry et al., 2010; Gaur & Lu, 2007; Gaur, Delios, & Singh, 2007; Xu, Pan & Beamish, 2004).

The proliferation of definitions, operationalizations, and proposed theoretical effects, however, has also raised concerns about the tightness and rigor of this construct and the comparability of institutional distance research across studies. A number of scholars have been troubled by such somewhat undisciplined diversity and the potential problems it might create, and have offered ideas of how to strengthen this research, conceptually and methodologically (Bae & Salomon, 2010; Berry et al., 2010; Beugelsdijk et al., 2018a; Fortwengel, 2017; Hotho & Pedersen, 2012; Philips, Tracey, & Karra, 2009; Zaheer et al., 2012). We too recognize that, at the extreme, such a broad and unscripted approach may create the sense that institutional distance is a "catch all" construct simply substituting for country. At this point in time and in this context, it would be beneficial to have a critical look at institutional distance research and to try to streamline its many different strands and approaches into a more cohesive view.

Our objectives in this review paper are three-fold. The first is to take stock of the growing literature on institutional distance by identifying the major institutional theory traditions employed, the ways in which institutional distance has been conceptualized and measured, and the theoretical mechanisms proposed. The second is to synthesize and analyze this literature by identifying robust findings on the impact of institutional distance on various organizational outcomes, including location choice, entry mode, performance, and others, as well as gaps and problematic areas in this work. The third is to offer insights and specific actionable recommendations for a more disciplined and

rigorous approach to institutional distance research in the future. We combine several approaches: a comprehensive review of the literature, rigorous meta-analysis of existing empirical research, and analysis and insights. The paper is based on a preliminary identification of over 1000 studies that have used the construct of institutional distance (published between 2002 and 2018), followed by an in-depth review of a representative sample of 171 studies, and a meta-analysis of 137 empirical papers from this sample.

THEORETICAL PERSPECTIVES IN INSTITUTIONAL DISTANCE RESEARCH

The construct of institutional distance is rooted in the notion of contextual embeddedness of organizations, which recognizes the “embeddedness of economic activity in wider social structures” (Dacin, Ventresca, & Beal, 1999: 318). Originating in political economy and economic sociology, the concept of embeddedness was social scientists’ response to both the “under-socialized” economic views of organizations that focused exclusively on resources and transactions, while ignoring the social aspect of markets, and the “over-socialized” views that studied social processes without sufficient consideration of economic relations (Parsons, 1960; Polanyi, 1944). As Granovetter (1985) suggests, economic activity occurs in on-going patterns of social relations: “All market processes are amenable to sociological analysis and ...such analysis reveals central, not peripheral features of these processes” (Granovetter, 1985: 505). Social structures impact economic activity through a variety of mechanisms: structural (social ties between social actors); cognitive (symbolic representations and frameworks of meaning that affect interpretation and sense-making by economic actors); cultural (shared understandings, norms, belief systems, and logics); and political (societal power structures and the distribution of resources and opportunities) (Dacin et al., 1999; Zucker, 1987).

Institutional theory in particular studies the embeddedness of organizations in institutional environments (Hall & Soskice, 2001; Whitley, 1999; Jackson & Deeg, 2008, 2019; North, 1990; Scott, 1995, 2014). While institutions and institutional embeddedness operate at different levels of analysis—from global, to field, to organization, to industry, to interpersonal (Scott, 1995, 2014)—the primary level employed in international business research is the nation state. The central idea in

institutional distance research is that companies doing business across national borders are embedded and exposed to multiple and different institutional environments in their home and host countries, and, as a result, face unique difficulties and risks (Kostova, 1999). The extent of such differences (i.e., institutional distance) determines the specific challenges faced in each set of conditions and affects companies’ strategic and managerial decisions and actions.

Three Schools of Thought

Institutional theory is rich and multifaceted (Aguilera & Grøgaard, 2019). As a result, institutions, institutional embeddedness, and institutional distance have been defined in a variety of ways, depending on the particular institutional perspective taken. Following Hotho and Pedersen’s insightful framework (2012), we distinguish between three strands of institutional theory: organizational institutionalism, institutional economics, and comparative institutionalism, which propose different conceptualizations of institutions, institutional distance, and the mechanisms by which it affects various outcomes. Institutional distance work has drawn from all these perspectives, sometimes explicitly specifying the perspective followed, and sometimes without a clear reference. This, we believe, has led to some confusion and ambiguity, which we will discuss in the critique section of the paper.

Organizational institutionalism is rooted in sociology. Here, institutions are viewed as relatively stable social structures composed of regulative, cultural-cognitive, and normative elements that, together with associated activities and resources, provide stability and meaning to social life (Meyer & Rowan, 1977; Powell & DiMaggio, 1991; Selznick, 1957; Scott, 1995). Institutions determine not only what is legal but also “legitimate”, i.e., acceptable and approved way of conducting certain functions in a particular society; under pressures for legitimacy in the broader institutional environment, organizations belonging to the same organizational field become similar, or isomorphic, with each other as they adopt those legitimate structures and practices, which over time assume a “taken for granted” status (Meyer & Rowan, 1977; Powell & DiMaggio, 1991; Selznick, 1957; Scott, 1995).

The original definition of institutional distance (Kostova, 1996) drew from this perspective, specifically based on Scott’s (1995) “three pillars” conceptualization of institutions: regulatory (rules and

laws that exist to ensure stability and order in societies), cognitive (established cognitive structures in society that are taken for granted), and normative (domain of social values, cultures, and norms). Accordingly, institutional distance between two countries was defined as the difference between their regulatory, cognitive, and normative institutions (Kostova, 1996). The main explanation of why institutional distance matters here is that different countries have different institutions and, therefore, different ways of conducting certain functions that are viewed as “legitimate”. When companies do business across borders, they face a challenge to not only learn new ways of conducting certain functions but also to satisfy multiple, different, and possibly conflicting, legitimacy requirements and expectations. This creates tensions externally, between the organization and its external legitimating environment (e.g., a particular host country), and internally, between organizational units located in different countries and therefore abiding by different institutional rules (Kostova & Zaheer, 1999).

Institutional economics has its roots in the economics discipline. Institutions are defined as “the humanly devised constraints that structure human interaction” and are categorized into formal (rules, laws, constitutions) and informal (norms of behavior, conventions, and self-imposed codes of conduct) (North, 1990: 3). Formal institutions determine the rules that govern economic activity and thus reduce uncertainty, risk, and transaction costs. Informal institutions, too, help coordinate economic action and become particularly important in the absence of strong formal market institutions. Accordingly, scholars have considered two types of institutional distance: formal and informal. As an example, Abdi and Aulakh (2012) distinguish between formal institutional distance (i.e., differences between the formal institutions such as existence and enforcement of market supporting rules) and informal institutional distance (i.e., differences between the shared norms, values, practices, and frames of interpretation in two countries). Estrin, Baghdasaeyan, and Meyer (2009) view formal institutional distance as concerning laws and rules that influence business strategies and operations, and informal institutional distance concerning rules embedded in values, norms and beliefs. Slangen and Beugelsdijk (2010) use the distinction between formal and informal institutional distance to show how differences in formal governance regulations and

informal cultures affect market-seeking and efficiency-seeking foreign direct investment in different ways. Notably, informal distance tends to be more loosely defined in this research tradition: for example, Zhu, Xia, and Makino (2015) introduce language differences as part of informal distance.

Although both organizational institutionalism and institutional economics suggest that institutional distance leads to higher costs of doing business abroad (e.g., Dikova, Sahib, & van Wittenloostuijn, 2010; Henisz & Williamson, 1999), there is a fundamental difference between the proposed explanatory mechanisms. Organizational institutionalism emphasizes the legitimacy mechanism whereby, in familiar institutional settings (e.g., their home country), organizations understand the existing institutional order and can more easily comply with the legitimacy requirements and expectations, while, in unfamiliar, particularly “distant”, environments (e.g., host country), companies have limited knowledge and understanding of how things are and should be done to establish and maintain an effective and legitimate operation (Kostova & Zaheer, 1999; Eden & Miller, 2004; Xu & Shenkar, 2002). There is also the risk of internal tensions between organizational units residing in different countries, as they try to work with the external institutional arrangements in their respective country (Kostova & Roth, 2002). Furthermore, there is an additional difficulty resulting from the different treatment that foreign companies get from local actors due to their “foreignness” (e.g., Mezas, 2002). In summary, institutional distance here leads to higher costs and risks because of lack of understanding of the institutional order, inability to simultaneously adjust to institutional requirements in multiple countries, challenges in establishing external legitimacy, and increased internal and external complexity.

The emphasis in institutional economics is not on legitimacy, liability of foreignness, and adaptation, but on the differing quality of institutional environments between countries, and on the different degree to which the existing institutions in a given country support effective economic activity and coordination between economic actors. There is a “sign” to the distance in this perspective. The increase in transaction costs depends not only on the countries involved but also on the direction of foreign expansion (Trapczynski & Banalieva, 2016). Less developed formal institutions in a given country tend to increase transaction costs due to the ineffectiveness of market mechanisms of

economic coordination. They also imply more opaque and unstable institutional rules that are difficult to make sense of and follow (Khanna & Palepu, 1997, 2000). The institution-related challenges are greater for companies moving from a more to a less institutionally developed environment than the other way around. While at home such companies are generally used to relying on formal institutions to carry out their economic activities, expanding into less developed host countries requires new understanding of the role of informal institutions, and learning new strategies and tactics for functioning under such conditions. Institutional distance is also an issue in the opposite direction, when companies are moving from less to more institutionally developed environments. In this case, the challenges are more related to the organization's ability to learn how to function under stricter and more mature institutional frameworks without the "help" of informality. In summary, distance in institutional economics has a differential effect, depending on the home and host countries' institutional quality, the specific sources of the related costs and risks, the types of organizational outcomes that might be affected the most, and the possible remedies for overcoming the challenges of distance.

Comparative institutionalism emphasizes the system of interdependent institutional arrangements in different areas of socio-economic life in a given country (e.g., economic models, legal frameworks, educational systems, national innovation systems, levels of development, role of the state, labor). This theory proposes typologies of national institutional systems, such as the liberal market economy or the coordinated market economy (Hall & Soskice, 2001; LaPorta, Lopez-de-Silanes, Shleifer, & Vishny, 1998; Nelson & Rosenberg, 1993; Whitley, 1999). Institutions reflecting the different facets of a country's institutional environment are seen as complementary and in combination with each other. They exist in national configurations that generate a particular systematic logic of economic action and reflect the overall institutional "character" of the nation (Jackson & Deeg, 2008, 2019).

In the context of cross-country diversity, this perspective is distinct from the previous two, in that conceptually it captures difference more than distance. Both organizational institutionalism and institutional economics conceive of home- and host-country diversity in terms of linear differences between discrete institutional parameters or variables (Jackson & Deeg, 2008, 2019). In contrast, the

emphasis in comparative institutionalism is on the differences between configurations of types of cases at the country level (Jackson & Deeg, 2008, 2019) or between institutional clusters as illustrated by the term varieties of capitalism (Judge, Fainschmidt, & Lee Brown III, 2014; Hotho, 2013). The impact of institutional differences from this perspective is discussed in terms of the overall "fit" between "firm-specific resources" and "the particular resource environments of a host country" (Jackson & Deeg, 2008: 543). Recognizing the interdependence between the various institutional aspects is an appealing advantage of this approach as it allows the capturing of cross-country "differences not of degree but of kind" (Jackson & Deeg, 2019: 5). At the same time, it is a departure from traditional treatment of institutional distance and presents some theoretical and empirical challenges to distance scholars.

Although not explicitly stated in their paper, we view Berry et al.'s (2010) work as an attempt to bridge traditional comparative institutionalism with distance research. To do that, similar to the comparativist tradition, the authors conceptualize institutions as a system of arrangements in nine different facets of a country's socio-economic life that logically hang together: politics, finance, economy, demography, administration, culture, knowledge, global connectedness, and geography. Unlike comparative institutionalism, though, they do not collapse the construct to an institutional "variety" or "type". Instead, they suggest theorizing at the dimension level to capture possible differential effects. At the same time, to stay truer to the configurational approach, they depart from traditional methods of multidimensional operationalizations (e.g., Euclidean distance), proposing instead the Mahalanobis method, which accounts for the interdependence between the different institutional dimensions (Berry et al., 2010). Overall, Berry et al.'s (2010) work has been well received, especially for the proposed Mahalanobis methodology (e.g., Kang, Lee, & Ghauri, 2017; Lindner, Muellner, & Puck, 2016). However, the key comparative institutional theoretical ideas behind Berry et al.'s (2010) work have not been sufficiently developed and employed in subsequent IB research.

Use of the Three Perspectives

For a more accurate assessment of the salience of the different institutional schools of thought in distance research, we relied on the subsample of 137 empirical studies included in our meta-

analysis. We evaluated the perspective used by each paper in our sample: that is, each of the 137 empirical studies was classified in one or two of the above traditions based on the primary theoretical mechanisms discussed and hypothesized (see the “Appendix” for more details). Although the grounding of the research in a particular theoretical tradition was not always clear and/or explicit, and in many cases authors mixed multiple strands of institutional theory, we were able to reach a consensus on this question through a rigorous coding procedure. The coding was carried out by three independent scholars, followed by additional deliberations in case of disagreement. Table 1 provides an overview of institutional distance studies that have their theoretical grounding in the three institutional perspectives.

As seen from the table, the three perspectives have not been equally represented in this literature. It should be noted that, of the 137 studies in the sample, institutional distance was part of the main model in 101 papers. The other 36 studies used institutional distance as a control variable; thus authors were less deliberate in clearly positioning their discussion of distance in any particular theoretical frame. Also, 13 of the 101 studies that examined institutional distance used none of the three institutional theories discussed above, employing instead other theoretical lenses, for example, learning theory (e.g., Perkins, 2014; Powell & Rhee, 2016).

Overall, organizational institutionalism has been the predominant perspective in this literature (38 of the 101 papers in our sample), followed by institutional economics (28 of the 101 papers), and an eclectic combination of different perspectives, usually organizational institutionalism and institutional economics (22 of the 101 studies). Comparative institutionalism, while increasingly used in international business research, has hardly been applied as a theoretical lens in distance literature. Hence, it is not included as a stand-alone perspective in Table 1.

In our view, organizational institutionalism has received the most attention, partly because it was the first to be used in institutional distance research (Kostova, 1996; Kostova & Roth, 2002; Busenitz et al., 2000). In addition, it provides a broad framework for studying institutional context and cross-country differences, giving researchers many choices to pick country-level variables that reflect various aspects of national environments and suit their research questions, ranging from laws and regulations, to cognitive structures and social knowledge, to social norms and cultural values. This approach allows the examination of institutional effects on a wide range of outcomes related to MNC strategies and organizational actions. The possibility of tailoring the application to a specific issue by selecting relevant institutional parameters further increases the capacity to explain outcomes of interest. Another facilitating factor for the use of organizational institutionalism is the growing

Table 1 Theoretical tradition in institutional distance research

	Organizational institutionalism	Institutional economics	Combination		Other		Total
			Org. inst. and Inst. econ.	Other	Other theory	Controlled	
No. of papers in a specific tradition	38	28	17	5	13	36	137
Use of unidimensional term							
Generic “institutional distance”	12	14	9	1	8	27	72
Use of multidimensional pillars							
Formal distance only	0	3	0	0	0	0	3
Informal distance only	0	0	0	0	0	0	0
Formal + informal distance	3	9	6	0	1	3	22
Regulatory distance only	4	2	0	3	3	2	14
Normative distance only	1	0	0	0	0	0	1
Cognitive distance only	0	0	0	0	0	0	0
Regulatory and normative distance	7	0	2	1	1	3	14
Regulatory and cognitive distance	0	0	0	0	0	0	0
Normative and cognitive distance	1	0	0	0	0	0	1
Reg. and Norm. and Cogn. distance	10	0	0	0	0	1	11

availability of reliable, accessible, and often longitudinal secondary data, measuring various institutional facets provided by the World Bank and other institutions (e.g., Heritage Foundation). As will be discussed below, the easy access to data on these dimensions appears to be an important factor in the more common use of those institutional dimensions, for which there is an abundance of data.

The use of the institutional economics perspective has increased steadily, especially in the last few years: 21 of 28 papers in this camp have been published in the last 5 years. We attribute this to the rise of emerging markets and their role in international business, and to the growing research devoted to studying that context, which brings forth the issues of quality of institutional environments, “institutional voids”, and substitutability of formal and informal institutions (e.g., Khanna et al., 2005; Peng, Wang, & Jiang, 2008). Institutional economics is well suited to studying those contexts. In addition, institutional economics applications have also benefited from the availability of secondary institutional data that can be used to quantify formal and informal institutions, for example, World Bank Governance Indicators, the Economic Freedom Index, and the Global Competitiveness Index (see Table 3 below). Overall, in later work, we find that organizational institutionalism has been gradually supplemented by institutional economics. While the volume of papers applying organizational institutionalism has been relatively stable over time, its relative share in all distance research has gone down from 33% from 2002 to 2014 to 25% in the period after 2014.

The use of comparative institutionalism in distance research is rather limited, despite the growing interest of international business scholars in this perspective (Aguilera & Grøgaard, 2019; Jackson & Deeg, 2019). There are a few studies that draw on Berry et al. (2010) and apply the Mahalanobis methodology for calculating institutional distance. They vary widely, with the type and number of institutional dimensions considered ranging from the full set of nine (Kang, Lee, & Ghauri, 2017) to a subset of a selected few or even a single dimension (e.g., Pinto, Ferreira, Falaster, Fleury, & Fleury, 2017). Lindner, Muellner, and Puck’s (2016) study, which uses four of the nine dimensions related to the regulatory and normative domains, exemplifies the typical application. There are also studies that select one dimension, mostly administrative distance (e.g., Ahrens et al., 2018; Brown, Yaşar, &

Rasheed, 2018; Jung & Lee, 2018) or various subsets as control variables (e.g., Schwens, Zapkau, Brouthers, & Hollender, 2018; Valentino, Schmitt, Koch, & Nell, 2018). None of these studies, however, are clearly positioned in the comparative institutionalism theoretical tradition, because they do not theorize at the level of the configuration. Theoretically, it is difficult to link the notion of distance with the configurational idea of comparative institutionalism, which is conceptually closer to difference rather than distance. Shifting from difference to distance is not as easy as the similar wording might make it appear. Fortwengel (2017) is a recent attempt to strengthen the theoretical underpinnings of comparative institutionalism in distance research. He proposes four characteristics of institutional configurations—coordination, strength, thickness, and resources—and conceptualizes distance as the difference between these characteristics. Overall, the application of this perspective in distance research is in its infancy and raises serious questions about the appropriateness of comparative institutionalism in this line of work. Due to the small number of associated studies, we could not include them in the meta-analysis and Table 1.

METHODOLOGICAL APPROACHES IN INSTITUTIONAL DISTANCE RESEARCH

In addition to the diversity in theorizing on institutional distance, this literature is also characterized by diversity in methodological approaches. Below is a brief review of the most common approaches employed.

Operationalization

Table 1 shows that operationalizations vary, generally depending on the particular institutional perspective employed. Most studies take a multidimensional approach. Research following organizational institutionalism typically utilizes Scott’s (1995) “three pillars” of regulatory, cognitive, and normative institutions, and constructs distance measures accordingly. Many papers use a separate measure for each of the three distances—regulatory, cognitive, and normative distances (e.g., He, Brouthers, & Filatotchev, 2013)—but some collapse normative and cognitive distances and construct one measure to capture both of them together (e.g., Gaur & Lu, 2007; Jensen & Szulanski, 2004). A number of papers focus on the regulatory and normative distances only (e.g., Ang, Benischke,

& Doh, 2015; Madsen, 2009), and construct separate measures for each of them (Gaur & Lu, 2007; Gaur et al., 2007; Xu et al., 2004). Among the three distances, regulatory distance is the one most frequently studied. Scott himself has always presented the pillars as analytic conceptual tools, while explicitly acknowledging that the elements associated with the pillars are often jointly at work and may change over time (Scott, 2014).

Research grounded in institutional economics distinguishes between formal and informal institutions (North, 1990, 1991) and constructs separate distance measures for each of them (e.g., Abdi & Aulakh, 2012; Dikova et al., 2010; Estrin et al., 2009). Some papers examine only the effects of formal institutional distance (e.g., Zhou, Xie, & Wang, 2016) or informal institutional distance (e.g., Sartor & Beamish, 2014; Schwens, Eiche, & Kabst, 2011) on their outcome variables, and thus construct one measure for that particular type.

There are exceptions to the multidimensional operationalization of institutions and institutional distance. As seen in Table 1, some papers take more of a reductionist approach and measure institutional distance as a unidimensional construct (e.g., Dellestrand & Kappen, 2012; Lahiri, Elango, & Kundu, 2014). Most of these studies use institutional distance as a control (27 of the 72 studies), although there are a number of papers where institutional distance is a main variable that follows the same unidimensional approach. Twelve of the 38 studies classified as organizational institutionalist, and 14 of the 28 rooted in institutional economics, take a unidimensional approach. In most of these papers, the authors recognize the multidimensionality of the construct in their theoretical discussions, but reduce it to one dimension when it comes to operationalization, usually choosing an institutional variable that is easy to explain and for which there are readily available data.

For example, in their study of cross-border acquisitions, Lahiri et al. (2014) discuss both formal and informal institutions when theorizing on the institutional environment and institutional distance, but use only formal institutions to represent institutional distance, stating that “institutional distance measures the difference in the development of formal institutions between acquirer and target nation”. Similarly, Gubbi, Aulakh, Ray, Sarkar, & Chittoor (2010) state that “institutional distance captures the differences in normative, regulative, and cognitive constructs between two economies”, but operationalize it as the strength of

market-supporting institutions and measure it through a single index. Zhou et al. (2016) also use a single index to measure institutional distance, focusing on business-related laws and regulation, which they suggest reflect the “rules of the game in a society”. Hence, a significant proportion of the papers employing organizational institutionalism do not sufficiently leverage the three pillars discussed by Scott (1995). Even when they use Scott’s framework in the theoretical development, they rarely utilize the three aspects of institutional distance in operationalizing and measuring the construct. This is also common in papers grounded in institutional economics, which either use a generic term of institutional distance without specifying the nature of the different institutions, or, even when they do so theoretically, settle on using only one type of institutions empirically, usually formal institutions.

Measurement

Measures of institutional distance are quite diverse. They vary between multidimensional collapsed into single-index (e.g., Pinto et al., 2017), single-index (e.g., Somaya & McDaniel, 2012), absolute difference (e.g., Liou, Chao, & Yang, 2016; Liou, Chao, & Ellstrand, 2017), weighted absolute-difference (Chao & Kumar, 2010), Euclidean distance (e.g., Gaur & Lu, 2007), Mahalanobis distance (e.g., Berry et al., 2010; He et al., 2013), positive and negative distance measures (e.g., Trapczynski & Banalieva, 2016), and other variations. Table 2 presents a summary of the data sources used for the different distance operationalizations.

Initially, institutional distance (grounded in organizational institutionalism) was measured through a specifically constructed survey instrument that captured its three dimensions, regulatory, cognitive, and normative (Kostova, 1996, 1997). In addition to capturing all three pillars, this approach was argued to be superior to alternative country-level measures because the survey was anchored in a particular issue domain: quality and quality management, assessing the regulations, social knowledge, and cultural norms related to the specific issue of quality. The same approach was followed by other scholars who developed surveys to measure the favorability of institutional environments with regard to other issues, for example, entrepreneurship (Busenitz et al., 2000) and market orientation (Kirca, Jayachandran, & Bearden, 2005). The issue-specific approach is consistent with organizational

Table 2 Operationalization of institutional distance by theoretical tradition (# of papers)

	Unidimensional institutional distance	Regulatory distance (RD)	Normative distance (ND)	Cognitive distance	Formal institutional distance	Informal institutional distance	Total
World governance indicators	31	7	0	0	7	0	45
Economic Freedom Index	14	6	0	0	7	0	27
International country risk guide	2	0	0	0	3	0	5
Global competitiveness report (RD)	3	11	0	0	0	0	14
World competitiveness yearbook (RD)	2	7	0	0	1	0	10
Global competitiveness report (ND)	0	0	14	0	0	0	14
World competitiveness yearbook (ND)	0	0	7	0	0	2	9
Hofstede	0	0	0	6	0	15	21
Other	20	8	6	6	7	5	52

institutionalism, in particular with the notion of organizational field, suggesting that countries might be similar in some domains of economic and social life (e.g., rule-of-law), but significantly different in other aspects (e.g., environmental protection). Measuring institutions and institutional distance by issue provides a more potent assessment of the institutional differences that really matter for the particular question under investigation. The alternative of using general country-level measures such as regulatory quality or rule of law, while meaningful for certain questions, may be less informative for other specific research questions (Kostova, 1997). The subsequent literature has departed from the domain-specific and survey-based measurement approach, using instead a variety of more generic country-level measures based on secondary data to capture whatever institutional dimensions are hypothesized in the theoretical models. This shift can partly be explained by the increased availability and quality of such data.

In the organizational institutionalism tradition, regulatory distance is most commonly measured with World Governance Indicators (WGI) (World Bank), the Economic Freedom Index (EFI) (Heritage Foundation), the World Competitiveness Yearbook (WCY) (IMD), or the Global Competitiveness Report (GCR) (World Economic Forum). A different set of items from these same databases has been used to measure normative distance. Studies by Gaur and Lu (2007), Gaur et al. (2007) and Xu et al.

(2004) have been particularly influential in adopting this approach, as it suggested alternative sets of items from the WCY and the GCR that could be used to measure regulatory and normative distance, respectively. The most glaring gaps in terms of using Scott's three pillars relate to the cognitive dimension. Many studies skip it altogether, especially when it comes to measurement, and half of those that do provide measures on cognitive distance use Hofstede's cultural dimensions. For example, Gaur et al. (2007) argue that cultural distance is rooted in the cultural-cognitive dimension of a nation's institutional environment. Jensen and Szulanski (2004) operationalized institutional distance as cultural distance, and measured it using the Kogut and Singh cultural distance index (1988), arguing that it captures both the cognitive and normative dimensions.

Work in the institutional economics tradition most often uses data from WGI and the EFI. These sources are typical for studies using a unidimensional distance index, and are also commonly used to measure formal institutional distance in two-dimensional operationalizations. Informal distance is measured primarily by Hofstede's cultural dimensions (Hofstede, 1980, 2001), although there are exceptions where scholars employ alternative cultural frameworks. For example, Estrin et al. (2009) use both Hofstede and GLOBE-based indexes to measure informal institutional distance. It is fair to say that the typical institutional distance study in the institutional economics tradition measures

Table 3 Most used measures of institutional distance

Type of distance	Measure	Data source
Regulatory	World Governance Indicators 1. Voice and accountability 2. Political stability and absence of violence 3. Government effectiveness 4. Regulatory quality 5. Rule of law 6. Control of corruption	World Bank http://info.worldbank.org/governance/wgi/#home
	Economic Freedom Index 1. Property rights 2. Freedom from corruption 3. Fiscal Freedom 4. Government spending 5. Business freedom 6. Labor freedom 7. Monetary freedom 8. Trade freedom 9. Investment freedom 10. Financial freedom	Heritage Foundation https://www.heritage.org/index/
Regulatory	Global Competitiveness Report 1. Anti-trust policy in your country effectively promotes competition 2. The legal system in your country is effective in enforcing commercial contracts 3. Private business can file suits at independent courts if there is a breach of trust on the part of the government 4. Citizens of your country are willing to accept legal means to adjudicate disputes rather than depending on physical force or illegal means 5. The chance that the legal and political institutions drastically change in the next five years is low 6. Your country's police are effective in safeguarding personal security so that this is an important consideration in business activity	World Economic Forum https://www.weforum.org/reports/the-global-competitiveness-report-2017-2018 Item selection introduced by Xu et al. (2004)
	World Competitiveness Yearbook 1. Fiscal policy 2. Antitrust regulation 3. Political transparency 4. Intellectual property protection 5. Judiciary system efficiency 6. Rarity of market domination in key industries 7. Fiscal policy (inflation)	IMD Business School https://www.imd.org/wcc/world-competitiveness-center-rankings/World-competitiveness-yearbook-ranking/#WCO Item selection introduced by Gaur and Lu (2007) and Gaur et al. (2007)
Normative	Global Competitiveness Report 1. Product design capability is heavily emphasized 2. Firms in country pay close attention to customer satisfaction 3. Staff training is heavily emphasized 4. Willingness to delegate authority to subordinates is generally high 5. Compensation policies link pay closely to performance 6. It is more common for owners to recruit outside professionals than to appoint children or relatives 7. Corporate boards are effective at monitoring management performance and represent shareholder interests	World Economic Forum https://www.weforum.org/reports/the-global-competitiveness-report-2017-2018 Item selection introduced by Xu et al. (2004)

Table 3 (Continued)

Type of distance	Measure	Data source
Cognitive	Global Competitiveness Yearbook	IMD Business School
	1. Adaption of political system to economic challenges	https://www.imd.org/wcc/world-competitiveness-center-rankings/World-competitiveness-yearbook-ranking/#WCO
	2. Adaption of government policies to new economic realities	
	3. Transparency of government toward its citizens*	
	4. Political risk rating	Item selection introduced by Gaur & Lu (2007); Gaur et al. (2007)
	5. Degree to which bureaucracy hinders economic development	
	Hofstede	Hofstede (2001)
	1. Power distance	http://geerthofstede.com/research-and-vsm/dimension-data-matrix/
	2. Individualism/collectivism	
	3. Masculinity/femininity	
	4. Uncertainty avoidance	
	5. Long-term orientation/short-term orientation	
	6. Indulgence/restraint	
	GLOBE	House et al. (2004)
	1. Performance orientation	http://globeproject.com/study_2004_2007#data
	2. Assertiveness	
	3. Future orientation	
	4. Humane orientation	
	5. Institutional collectivism	
	6. Institutional collectivism	
	7. Gender egalitarianism	
	8. Power distance	
	9. Uncertainty avoidance	
Formal	Same as regulatory institutional distance	–
Informal	Same as cognitive institutional distance	–

*item is taken from Country Risk ratings: Euromoney

formal distance, using either the WGI or the EFI, and informal distance using Hofstede's cultural dimensions. The latter is commonly operationalized using the Kogut and Singh index of cultural distance (Kogut & Singh, 1988). Table 3 presents the different measures and sources of data used in institutional distance research.

Concerns

Our analysis of operationalization and measurement of institutional distance suggests several points of attention, if not concern. First, the same data are used to measure institutional variables that belong to different theoretical traditions. In the case of regulatory distance (organizational institutionalism) and formal distance (institutional economics), this is less of a problem given that Scott himself builds this link, referring to North when discussing regulatory distance (Scott, 1995, 2014). However, the interchangeable use of Hofstede's cultural dimensions in measuring informal

(institutional economics) as well as cognitive and normative distance (organizational institutionalism) is more problematic, because it is not true to the conceptual essence of these constructs. Hofstede's indexes represent cultural value dimensions, while the cognitive institutional aspect is supposed to capture the "taken for granted" habitual ways of doing certain things in a society. An extreme example of how these might be disconnected can be offered around the issue of corruption. Most countries would not view corruption as "the right thing to do" (value judgment), but in many it is "how things get done around here" (cognitive habituality). Even more problematic is the use of cultural indexes to measure informal institutions. In North's framework, informal institutions are important because they can serve as complements, or, in some cases, as substitutes for weak formal institutions. Thus, the function of informal institutions is to help coordinate economic and social

transactions and interactions in a society, especially in the absence of strong formal institutions. Culture, in Hofstede's framework, has not been conceptualized as either a formal or an informal market coordination mechanism. The level of power distance or masculinity, for example, is not conceptually linked to facilitating economic transactions. Also, in many articles within the organizational institutionalist tradition, regulatory and normative distance have both been measured using a variety of databases. This raises the more fundamental question of whether results obtained for the same dependent variable depend on the particular measure used. As Beugelsdijk et al. (2018a) show, the correlation between distance indexes based on WGI and EFI is low, suggesting that these databases cannot be used interchangeably, thus raising questions on the sensitivity of empirical findings.

MAIN FINDINGS IN INSTITUTIONAL DISTANCE RESEARCH

A key question in our study concerned the various outcomes that have been linked to institutional distance in research. We identified 20 different outcomes in the full sample of 171 papers. The most investigated outcome is firm performance (e.g., Gaur & Lu, 2007; Lazarova, Peretz, & Fried, 2018; Shirodkar & Konara, 2017). Other frequently examined outcomes include ownership structure (e.g., Ilhan-Nas, Okanb, Tatogluc, Demirbag, Woode, & Glaisterf, 2018; Powell & Rhee, 2016; Xu et al., 2004), location choice (e.g., Madsen, 2009; Romero-Martinez, Garcia, Muina, Chidlow, & Larimo, 2019; Xu & Shenkar, 2002), headquarters–subsidiary relationship (e.g., Dellestrand & Kappen, 2012; Li, Jiang, & Shen, 2016; Valentino et al., 2018), and entry mode (e.g., Brouthers, Brouthers, & Werner, 2008; Ang et al., 2015). Cross-border mergers and acquisitions deal abandonment/completion (e.g., Bhaumika, Owolabib, & Sarmistha, 2018; Dikova et al., 2010), establishment mode/type (e.g., Arslan, Tarba, & Larimo, 2015; Estrin et al., 2009), and cross-border transfer of organizational practices (e.g., Jensen & Szulanski, 2004; Kostova, 1999) have also been studied a few times. Other outcomes have only been examined once or twice, for instance, MNEs' legitimacy and isomorphism (e.g., Kostova & Zaheer, 1999; Salomon & Wu, 2012). It can therefore be concluded that institutional distance has been employed in a wide variety of studies.

In light of the proliferation of theoretical and methodological approaches discussed above, we were also interested in assessing, to the extent possible, whether particular theoretical perspectives, operationalizations, and measurements are more potent than others in providing insights into certain organizational outcomes. What sources of data seem to be more informative in capturing the effects of institutional distance? Are results sensitive to the use of different measurement methods (e.g., Euclidean vs. Mahalanobis)? In this effort, we supplemented our literature review with a rigorous meta-analysis of the empirical studies in the sample. A total of 137 papers were included, providing sufficient sample size for this technique. A list of these studies can be found in the "Appendix".

Overall, most of the papers examined the impact of institutional distance on firm performance and internationalization, including different stages of the internationalization process, such as location choice, and entry and establishment mode. To our surprise, in our sample, there were fewer papers (not sufficient for conducting a meta-analysis) that linked institutional distance to management and organizational issues such as transfer of practices or headquarters control (e.g., Kostova & Roth, 2002; Dellestrand & Kappen, 2012). Specifically, of all the statistical relationships included in our meta-analysis, 50% were on performance, closely followed by entry mode (full or partial ownership) (39%). The number of location choice (5%) and establishment mode (greenfield or acquisition) (6%) studies is rather limited. Thus, we could only evaluate the methodological questions with respect to operationalization and measurement in studies on performance and entry mode. For that reason, we present the results for performance and entry mode in the main text, and delegate detailed results on location choice and establishment mode to the "Appendix".

MNC and Subsidiary Performance

As shown in Table 4, we find that institutional distance generally has a negative effect on firm performance, including almost all types of performance used, i.e., accounting, market, and survival measures. Survival of a foreign market entry experienced the most detrimental effect of institutional distance. Market-based performance was the only type that was not significantly impacted by institutional distance (although the sign of the effect was also negative). Interestingly, the negative effect of institutional distance on performance is about

Table 4 HOMA results for institutional distance and performance

Predictor	K	n	Mean (p value)	SE	Q test	I^2
Pearson product-moment correlation (<i>r</i>) and partial correlation coefficients ($r_{xy.z}$)						
Institutional distance to performance	467	1,370,095	− 0.024 (0.000)	0.004	7676.26	0.94
Unidimensional institutional distance to performance	189	980,011	− 0.022 (0.001)	0.007	5808.56	0.97
Regulatory distance to performance	114	240,834	− 0.038 (0.000)	0.006	770.05	0.85
Normative distance to performance	60	87,648	− 0.021 (0.074)	0.011	533.23	0.89
Cognitive distance to performance	12	2,710	− 0.012 (0.596)	0.019	15.70	0.17
Formal distance to performance	50	29,872	0.001 (0.925)	0.014	212.09	0.76
Informal distance to performance	42	29,020	− 0.028 (0.012)	0.011	107.80	0.60
Institutional distance measurement						
Euclidean distance	25	13,997	− 0.036 (0.001)	0.011	33.96	0.23
Kogut and Singh Index	101	202,732	− 0.053 (0.000)	0.016	3908.96	0.97
Mahanalobis	22	33,104	− 0.118 (0.000)	0.022	196.13	0.88
Differences	96	185,595	− 0.009 (0.059)	0.005	305.70	0.68
Other/unknown	223	934,667	− 0.009 (0.030)	0.004	1938.76	0.88
Data sources						
World governance indicators	89	797,747	− 0.018 (0.062)	0.010	5308.04	0.98
Economic Freedom Index	76	207,254	− 0.036 (0.000)	0.006	226.15	0.66
International country risk guide	16	21,626	0.007 (0.618)	0.014	41.49	0.59
Global competitiveness report (item set RD)	42	49,617	− 0.019 (0.019)	0.008	111.81	0.62
World competitiveness yearbook (item set RD)	16	37,545	0.033 (0.140)	0.023	145.85	0.88
Global competitiveness report (item set ND)	39	49,260	− 0.004 (0.476)	0.005	50.79	0.21
World competitiveness yearbook (item set ND)	18	37,977	− 0.041 (0.116)	0.026	239.43	0.92
Hofstede	39	11,173	− 0.002 (0.895)	0.018	116.49	0.66
Other	115	152,390	− 0.039 (0.000)	0.007	647.46	0.82
Performance types						
Accounting performance	182	973,417	− 0.011 (0.000)	0.004	1520.55	0.88
Market performance	45	50,431	− 0.002 (0.805)	0.008	128.58	0.64
Survey performance	91	15,069	− 0.037 (0.032)	0.017	392.48	0.77
Survival	38	89,312	− 0.058 (0.000)	0.015	556.50	0.93
Other	111	241,866	− 0.033 (0.014)	0.013	4077.05	0.97
Performance identity						
MNC	190	263,005	− 0.009 (0.031)	0.004	774.12	0.75
Subsidiary	248	1,067,968	− 0.040 (0.000)	0.000	6731.96	0.96
Published or not						
Published	428	1,345,450	− 0.024 (0.000)	0.004	7624.26	0.94
Unpublished	39	24,645	− 0.025 (0.035)	0.011	50.67	0.21
Multiple countries only						
Institutional distance to performance	213	869,122	− 0.009 (0.028)	0.004	1739.74	0.88
Unidimensional institutional distance to performance	101	681,564	− 0.000 (0.952)	0.005	1216.17	0.92
Regulatory distance to performance	22	129,475	− 0.006 (0.477)	0.008	118.96	0.81
Normative distance to performance	10	3089	− 0.018 (0.330)	0.018	8.94	0.00
Cognitive distance to performance	–	–	–	–	–	–
Formal distance to performance	39	26,748	− 0.021 (0.156)	0.015	165.28	0.76
Informal distance to performance	36	27,006	− 0.034 (0.004)	0.012	91.81	0.60

four times stronger (i.e., more negative) on subsidiary performance ($\beta = -0.040$; $p = 0.000$) than on the performance of the MNC as a whole ($\beta = -0.009$; $p = 0.031$). This finding is consistent with a recent study on cultural distance (Beugelsdijk et al., 2018b).

Furthermore, we observe some interesting differences depending on the theoretical tradition and institutional dimensions used. Specifically, while

the effect of formal distance (institutional economics) is insignificant ($\beta = -0.001$; $p = 0.925$), the effect of regulatory distance (organizational institutionalism) is negative and significant ($\beta = -0.038$; $p = 0.000$). We also find a significant negative effect when institutional distance is measured unidimensionally ($\beta = -0.022$; $p = 0.001$) (often using the same indicators as for formal and regulatory distance). For a more refined analysis, we

further replicated the test on a smaller sub-sample of papers that used both multiple home and multiple host countries. The reason is that there has been a concern in the literature (Brouthers, Marshall, & Keig, 2016; van Hoorn & Maseland, 2016) that studies which use one home and multiple host countries might in fact be capturing “profile” rather than “distance” effects. In those cases, results are driven by the institutional characteristics of the host country regardless of how “distant” it is from the home country. This is especially relevant when the focus is on regulatory and formal institutions. Interestingly, as seen in Table 4, in this smaller and stricter subsample, we found no significant performance effect for formal, regulatory, and unidimensional measures of institutional distance. There is a negative and significant effect of informal distance (most often measured by Hofstede’s cultural dimensions) on performance, again consistent with previous meta-analyses on cultural distance and performance (Beugelsdijk et al., 2018b; Magnusson, Baack, Zdravkovic, Satub, & Amine, 2008). We believe that these results are among the most interesting analytical findings in our review, showing that methodological approaches, including sample structure (number of home and host countries), and the particular measurement approach employed, matter greatly for the results, even to the extent that they may render institutional distance insignificant.

The meta-analytical technique allowed us to also test for possible contingency effects of the way institutional distance is measured in terms of both method and data source. Table 4 shows that the vast majority of the papers use either the Kogut and Singh index or another Euclidean distance index, and that both approaches find a negative and significant relationship with performance. Studies using the Mahalanobis distance (Berry et al., 2010) show the strongest negative relationship with performance ($\beta = -0.118$; $p = 0.000$). Studies that simply take the difference between the home and a host country score on an indicator ($\beta = -0.009$; $p = 0.059$), or in which it is unclear what method is used to measure distance, also have a negative and significant relationship ($\beta = -0.009$; $p = 0.030$). It therefore appears that all these measurement methods are effective in capturing the relationship between institutional distance and performance. The Mahalanobis method is perhaps preferable given its unique ability to also account for the

correlation between the different institutional dimensions (Berry et al., 2010).

The analysis of the impact of the data source used is less straightforward due to the variety in measures and data sources, as well as the interchangeable use of overlapping data for different institutional dimensions and variables. We do not have a sufficient number of studies to provide a comprehensive analysis of all possible methodological effects slicing the sample by database, distance dimension, and sample structure used. What we can say, however, is that, specifically for those distance dimensions that are most at risk of conflating distance and profile effects (i.e., formal, regulatory, and unidimensional), we find notable differences in results depending on the data source used. For example, there is a negative and significant coefficient for distances using the WGI ($\beta = -0.018$; $p = 0.062$), EFI ($\beta = -0.036$; $p = 0.000$), and the regulatory distances using the GCR item set ($\beta = -0.019$; $p = 0.019$). In contrast, both the regulatory distances using the WCY ($\beta = 0.033$; $p = 0.140$), and the International Country Risk (ICR) guide ($\beta = 0.007$; $p = 0.618$) find a positive but insignificant coefficient.

Entry Mode

Table 5 presents summary results for the relationship between institutional distance and entry mode. Entry mode refers to the degree of ownership taken by an MNC in a foreign venture. In the primary studies, entry mode is most frequently measured as a continuous variable or percentage of ownership (167 correlations; e.g., Malhotra & Gaur, 2014), followed by a dummy variable taking the value of 1 for full ownership and 0 for partial (162 correlations; e.g., Gaur & Lu, 2007), and a categorical variable of minority versus majority versus wholly-owned (35 correlations; e.g., Xu et al., 2004).

Similar to performance, we find an overall negative and significant relationship between institutional distance and entry mode. Greater institutional distance is associated with lower commitment in terms of degree of ownership, irrespective of the way entry mode is operationalized (dummy, continuous, or categorical) ($\beta = -0.029$ and $p = 0.000$). Also similar to performance, we find opposing results for formal distance (insignificant with $\beta = -0.016$ and $p = 0.348$), regulatory distance (significant with $\beta = -0.049$ and $p = 0.005$), and a unidimensional operationalization of institutional distance (insignificant with

Table 5 HOMA results for institutional distance and entry mode/degree of ownership

Predictor	K	n	Mean (<i>p</i> value)	SE	Q test	<i>I</i> ²
Pearson product-moment correlation (®) and partial correlation coefficients (® _{xy.z})						
Institutional distance to entry mode	364	862,885	− 0.029 (0.000)	0.006	10,073.72	0.96
Unidimensional institutional distance to entry mode	109	336,779	0.003 (0.685)	0.008	1616.81	0.93
Regulatory distance to entry mode	72	247,806	− 0.049 (0.005)	0.017	4948.15	0.99
Normative distance to entry mode	55	163,697	− 0.034 (0.059)	0.018	2608.68	0.98
Cognitive distance to entry mode	28	67,548	− 0.041 (0.000)	0.011	175.04	0.83
Formal distance to entry mode	44	21,873	− 0.016 (0.348)	0.017	232.90	0.81
Informal distance to entry mode	56	25,182	− 0.069 (0.000)	0.013	205.06	0.72
Entry mode measurement						
Dummy	162	598,204	− 0.019 (0.019)	0.008	5474.57	0.97
Categorical	35	18,909	− 0.056 (0.019)	0.024	298.26	0.88
Continuous	167	245,772	− 0.034 (0.000)	0.009	3076.70	0.95
Published or not						
Published	351	847,947	− 0.029 (0.000)	0.006	10,018.75	0.96
Unpublished	13	14,938	− 0.046 (0.006)	0.017	43.27	0.68
Multiple countries only						
Institutional distance to entry mode	113	367,647	− 0.044 (0.000)	0.009	2357.68	0.95
Unidimensional institutional distance to entry mode	29	267,886	− 0.028 (0.031)	0.013	708.89	0.96
Regulatory distance to entry mode	–	–	–	–	–	–
Normative distance to entry mode	–	–	–	–	–	–
Cognitive distance to entry mode	–	–	–	–	–	–
Formal distance to entry mode	35	18,700	− 0.006 (0.746)	0.019	177.54	0.80
Informal distance to entry mode	43	21,363	− 0.071 (0.000)	0.015	146.70	0.70

$\beta = 0.003$ and $p = 0.685$). We do not have a sufficient number of studies to look into the effect of sample structure on the various distances, but, as seen in Table 5, in studies with multiple home and host countries, the effect of formal distance is not significant ($\beta = 0.006$ and $p = 0.746$). We present this result with caution given the small number of such studies in our sample which do not allow drawing definitive conclusions (the number of correlations is 35). In contrast, informal distance appears to be rather stable, showing a negative and significant effect on entry mode ($\beta = -0.069$ and $p = 0.000$) irrespective of sample structure ($\beta = -0.071$ and $p = 0.000$ for the sample with multiple home and host countries).

Establishment Mode and Location Choice

We find no significant relationship between institutional distance and establishment mode (acquisition vs. greenfield; $\beta = 0.021$; $p = 0.146$). The number of establishment mode studies using multiple dimensions (either formal–informal, or regulatory–normative–cognitive) is too small to draw robust conclusions (detailed results in the “Appendix”). Interestingly, the institutional distance effect becomes positive and significant in studies using multiple home and host countries ($\beta = 0.035$;

$p = 0.027$). We interpret this as support for our more general observation that, to understand institutional distance effects, it is critical to distinguish distance effects from the direct (i.e., “profile”) institutional effects of the respective country. The latter conclusion also applies to location choice studies. Here, we find a general negative and significant relationship between institutional distance and location choice ($\beta = -0.028$; $p = 0.087$), but this effect turns insignificant in studies using multiple home and host countries ($\beta = -0.017$; $p = 0.343$).

THE STATE OF INSTITUTIONAL DISTANCE RESEARCH

Our review of the 171 papers combined with the meta-analysis on 137 of them provides sufficient grounds for evaluating the current state of institutional distance research. We can conclude that institutional distance has firmly established itself as one of the core constructs in international business research, and has enriched our understanding of a number of important phenomena for firms doing business across borders. Moreover, a diverse set of methods and measures have been developed and used for capturing institutional distance, and there

even seems to be an emerging convergence on some best practices in methodology.

At the same time, our review uncovered certain problems, showing that this literature can sometimes be ill-defined theoretically and less than rigorous empirically. This is reminiscent of past critiques of cultural distance research (Kirkman et al., 2006; Maseland, Dow & Steel, 2018; Shenkar, 2001; Tung & Verbeke, 2010; Zaheer et al., 2012), although it is our impression that these issues are even more pervasive for institutional distance. This is perhaps so because cultural distance research has been around longer and has matured as a field of inquiry (Cuypers, Ertug, Heugens, Kogut, & Zhou, 2018). While the concept of culture is equally broad and multi-faceted as institutions, international business scholars have converged on using a narrower subset of culture theories and frameworks (e.g., Hofstede, 1980; House, Hanges, Javidan, Dorfman, & Gupta, 2004; Schwartz, 1994, 1999; Peterson & Barreto, 2018), allowing a more precise and consistent theorizing on the effects of cultural distance. There has not been such a maturation of the institutional distance research. On the contrary, there seems to be a continuing proliferation of conceptualizations and applications. This might also be partially caused by the richness of the institutional perspective as well as the abundance of country-level secondary data of institutional nature. Below, we discuss several key problematic areas and suggest ways in which this area of research can be streamlined and strengthened.

Theoretical Ambiguities

We found that the papers in our study are not sufficiently explicit and precise with regard to the particular strand of institutional theory they draw upon, whether organizational institutionalism, institutional economics, or comparative institutionalism. There are exceptions where authors clearly and consistently anchor their theoretical models and methodologies in a particular perspective (e.g., Dikova, Sahib, & Witteloostuijn, 2010; Estrin et al., 2009; Kostova, 1996; Madsen, 2009). However, many papers lack such clarity, either not specifying the perspective they take or mixing ideas from multiple perspectives, muddling the theoretical argumentation (see Tables 1, 2). This can lead to at least two problems.

First, when a paper is not clearly anchored in a particular institutional model, it is less likely to utilize its theoretical rigor and provide a precise and sharp theoretical argumentation for the proposed

effects of institutional distance. This results in a rather generic discussion without deep institutional explanations and a somewhat superficial application of the construct as a “one-size-fits-all” or “catch-all” treatment of country differences. Ultimately, it reflects a simplistic view on the impact of institutional distance affecting all phenomena of cross-border nature in a similar and negative way. Our observation is that this problem is particularly common in studies conceiving of institutional distance as a unidimensional construct (see Table 1).

Second, the three institutional perspectives differ in their main theoretical theses, which are anchored, respectively, in distinct disciplines, sociology, economics, and political science, and associated with distinct levels of analysis, theoretical explanations, assumptions, and boundary conditions. When papers mix perspectives indiscriminately, they run the risk of logical inconsistency in their predictions. As discussed above, organizational institutionalism and institutional economics may, but need not, make the same predictions on the impact of distance on firms. For example, examining the challenges of entry of emerging market firms going to developed economies, organizational institutionalism is likely to suggest a negative impact of distance, while institutional economics might emphasize the positive learning opportunities for the firm entering an institutionally developed and stable market. Equally problematic is the common practice that we observed of equating culture with informal institutions and also with the cognitive or normative pillars from Scott’s framework.

A related theoretical problem concerns the rigor of the presented explanatory mechanisms of institutional distance effects. Although most of the papers reviewed provide some theoretical explanations, many reiterate similar arguments in linking different institutional variables to different organizational outcomes. For example, formal and regulatory institutions have been suggested to influence a number of different outcomes based on the same set of standard explanations, often referring to increasing costs of doing business abroad. This is also often the case for informal institutions or cognitive and normative pillars. Furthermore, some papers that treat institutional distance as multidimensional do not always develop arguments for the differential effects of the different pillars, proposing instead a generic distance effect and thus failing to

Table 6 Primary studies included in the meta-analysis

1. Abdi, M., & Aulakh, P. S. 2012. Do country-level institutional frameworks and interfirm governance arrangements substitute or complement in international business relationships? *Journal of International Business Studies*, 43(5): 477–497
2. Adamoglou, X., & Kyriakidis, D. 2018. FDI entry strategies as a function of distance—The case of an emerging market: Turkey. *Journal of Knowledge Economy*, 9(4): 1348–1373
3. Aguilera-Caracuel, J., Aragon-Correa, J. A., Hurtado-Torres, N. E., & Rugman, A. M. 2012. The effects of institutional distance and headquarters' financial performance on the generation of environmental standards in multinational companies. *Journal of Business Ethics*, 105(4): 461–474
4. Aguilera-Caracuel, J., Hurtado-Torres, N. E., Aragon-Correa, J. A., & Rugman, A. M. 2013. Differentiated effects of formal and informal institutional distance between countries on the environmental performance of multinational enterprises. *Journal of Business Research*, 66(12): 2657–2665
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utilize the opportunities that the unique pillars provide for enriching the theory.

In our view, all of these critical shortcomings in the existing literature on institutional distance can be easily corrected by a more careful and disciplined approach. The first step in distance studies should be to specify the particular theoretical perspective employed. The choice of which perspective to use should be driven by what is most theoretically appropriate given the phenomenon under study and the particular research question asked. Is the story primarily one of social embeddedness in institutionalized ways of conducting certain functions that are consistent with rules and regulation and are viewed as socially appropriate and legitimate? Or is it one of the quality of market institutions and the related risks, uncertainty, and costs? Or is our research question best tackled through the lens of a national system of institutional order whereby different aspects of the environment logically hang together? The answer to these questions will lead scholars to choose organizational institutionalism (Scott, 1995), institutional economics (North, 1990, 1991), or comparative institutionalism (Hall & Soskice, 2001; Whitley, 1999; Jackson & Deeg, 2008, 2019) as their main theoretical framework. Anchoring a study and explicitly conveying the chosen perspective provides a clear starting point and a solid foundation for building the arguments, developing the propositions and hypotheses, as well as designing the proper methodology for conducting the research.

Distance versus Profile

One of the most shocking findings in our review was the non-significant relationship between three commonly used institutional distances (unidimensional, formal, and regulatory) and firm performance, which we found in the meta-analytical tests in the smaller balanced sub-sample of studies using multiple home and host countries. This was in contrast to the significant relationship of these variables in the imbalanced samples with one home

or one host country. This analysis provides statistical evidence for concerns previously raised in the literature about the potential dangers of conflating distance and direct (“profile”) effects caused by certain research design solutions (Brouthers et al., 2016; Harzing & Pudelko, 2016; van Hooft & Maseland, 2016). The distinction between institutional profile (the set of regulatory, cognitive, and normative institutions in a given country) and institutional distance (the difference of the institutional profiles of two countries) was recognized in the initial work in this area (Kostova, 1996). However, it has been ignored in some subsequent applications, by framing studies in terms of distance but presenting arguments based on the institutional conditions of a host country (profile). We often observed this conflation of distance and profile effects in work on entry or locational decisions or performance in emerging markets, where authors describe distance effects by discussing the poor institutional conditions in the target market (e.g., Romero-Martinez et al., 2019). There is an implicit assumption in these papers that the investor comes from an institutionally developed home country, most often the US, which means that the distance measures capture the deviation of the host countries’ institutional environments from the mature market institutional environment at home. In this case, the sign of the difference between home and host tends to be always in one direction, from high to low quality of institutions. Finally, it should be noted that distance is not always the appropriate framing; some studies, because of their specific research questions, should focus instead on the direct effects of institutional profile of a particular country (host or home).

Another fascinating result in our analysis showed that this design issue (single home or host country) is not a problem for informal institutions, as evidenced by the robust effects of informal and normative institutional distance. We believe this is due to the distinct conceptual nature of formal versus informal institutions, in particular the

Table 7 HOMA results for institutional distance and location choice

Predictor	K	n	Mean (p value)	SE	Q test	I^2
Pearson product-moment correlation (r) and partial correlation coefficients ($r_{xy.z}$)						
Institutional distance to location choice	45	1,244,420	– 0.028 (0.087)	0.017	14,055.58	1.00
Unidimensional distance to location choice	14	300,720	– 0.007 (0.064)	0.003	52.70	0.72
Regulatory distance to location choice	–	–	–	–	–	–
Normative distance to location choice	–	–	–	–	–	–
Cognitive distance to location choice	–	–	–	–	–	–
Formal distance to location choice	8	429,730	– 0.154 (0.002)	0.050	6669.95	1.00
Informal distance to location choice	8	429,730	0.033 (0.000)	0.007	99.35	0.91
Multiple countries only						
Institutional distance to location choice	39	1,170,286	– 0.017 (0.343)	0.018	13,951.58	1.00

Table 8 HOMA results for institutional distance and establishment mode

Predictor	K	n	Mean (p value)	SE	Q test	I^2
Pearson product-moment correlation (r) and partial correlation coefficients ($r_{xy.z}$)						
Institutional distance to establ. mode	8	47,669	0.021 (0.146)	0.014	405.20	0.85
Formal distance to establ. mode	17	3,283	0.039 (0.374)	0.055	154.60	0.88
Informal distance to establ. mode	17	3,283	0.092 (0.097)	0.055	154.60	0.88
Regulatory distance to establ. mode	4	2,364	0.085 (0.118)	0.054	20.25	0.75
Normative distance to establ. mode	4	2,364	0.059 (0.162)	0.042	12.15	0.59
Cognitive distance to establ. mode	–	–	–	–	–	–
Unidimensional institutional distance to establ. mode	16	36,375	– 0.016 (0.316)	0.016	98.23	0.83
Multiple countries only						
Institutional distance to establ. mode	23	39,722	0.035 (0.027)	0.016	165.24	0.85

directionality of formal distance and the neutrality of informal distance. Especially in light of the measures used for these variables (measuring informal institutions through Hofstede's cultural value dimensions), it becomes clear that regulatory and formal institutional aspects range on a scale from unfavorable to favorable, poor to good, weak to strong, while cultural values are just different across countries. Paying attention to the distinction between institutional distance and profile effects is critical for building stronger theoretical models and choosing proper empirical design accordingly.

Measurement Ambiguities

Our review uncovered a number of areas of concern with regard to operationalization and measurement of institutional distance. There appears to be some initial convergence on measures of formal and regulatory institutional distance, especially when it is operationalized as a general country-level construct rather than in a domain-specific way (see Table 2). There is also an increasing number of authors who opt for measuring informal institutional distance with the Hofstede-based distance index. However, our overall conclusion is that this

research has not yet arrived at standardized, systematic, and theoretically driven approaches with regard to the empirical use of this construct. This, coupled with insufficient justification of the use of particular measures in many papers, raises questions about the rigor of this work and may lead some to believe that certain measures are being used out of convenience, even if they are not the most appropriate theoretically and empirically. Furthermore, as discussed above, some studies use the same data to measure different types and pillars of institutions, sometimes from different institutional perspectives. This raises serious questions about the theoretical logic and the meaning of the findings in particular studies: are they really due to institutional distance or some undefined generic variable that captures country?

Another issue is the common use of country-level secondary data, which assess institutional environments in generic terms and at the country level, and thus depart from the idea of issue specificity, particularly important in the organizational institutionalism perspective. This is especially problematic when the cognitive dimension of institutional environments is considered. Using country-level

measures of cultural values (e.g., Hofstede), which we found to be a common approach, is a big departure from the original meaning of this dimension as the shared knowledge and the taken-for-granted ways of conducting certain business functions (Kostova, 1996).

While the literature on institutional distance is still in its growth and maturation stage, we believe that there are ways in which these measurement ambiguities can be addressed to improve validity and rigor. For organizational institutionalism, the main remedies include: (1) carefully specify the level of analysis, as it can be field, industry, country, or meta-environment; (2) try to choose or develop measures of the regulatory, cognitive, and normative pillars that are issue-specific at that level, and (3) avoid using interchangeably the same measures for the different institutional dimensions (e.g., normative measured through regulatory indicators, or cognitive measured through Hofstede's cultural values). Ultimately, the goal should be to employ measures that capture in the best possible way the three-pillar aspects of the institutional environment that are the closest to the phenomena under study and thus are true to the theoretical roots of this perspective. This can be done in at least two ways. First, given the wide availability of various databases nowadays capturing institutional context, researchers could identify measures that are close to the issue under study. For example, to evaluate the institutional environment with regard to CSR, one could look for secondary data that describes regulations, social knowledge, and norms related to CSR, as opposed to using some generic country-level indicators. Alternatively, if such measures are unavailable or unsatisfactory, it would be theoretically appropriate and worth the effort for scholars to develop a customized survey instrument that measures the institutional environment for the particular domain of interest. Both of these approaches are true to the theoretical logic of organizational institutionalism.

For the institutional economics perspective, scholars should use measures and operationalization of formal and informal institutions with caution. For example, we observed some recent convergence in using WGI and EFI for measuring formal institutional distance. However, it should be understood that, while both of these databases measure formal institutions in a given country, they focus on different aspects reflecting different institutional domains. WGI measure quality of governance, such as rule of law, degree of

corruption, and strength of political institutions, all of which can be linked to North's ideas of ease of doing business, market-supporting institutions, transactions costs, and uncertainty. The EFI focuses on the degree to which economic actors are free from government interference and government-imposed constraints and regulations in different areas of economic activity, such as the labor market, capital market, trade policies, investment regulations, and others. Using these sources interchangeably may be inconsistent with the theories employed. In our view, the EFI might have a slight ideological bend as it is anchored in neo-liberal philosophy and the assumption of free market superiority. Thus, the WGI might be more in line with the conceptual essence of North's formal institutions.

Furthermore, the recent tendency to use Hofstede-based cultural distance as a measure of informal distance in the same perspective is problematic. As we have discussed, culture does not adequately capture the idea of informality as a substitute for weak formal institutions, as conceived by North (1990, 1991). Cultural values are different across countries, but they cannot be automatically assumed to have the capacity to substitute for deficient formal institutions. For example, it is hard to argue that Kogut and Singh's (1988) cultural distance index is a substitute for poor rule of law or low investment freedom in a country. Thus, researchers need to be more careful and precise in measuring informal institutions and informal distance in this tradition. It might be useful to start rethinking the way we have operationalized informal institutions in this tradition. Could we explore concepts that better capture the informal mechanisms facilitating economic transactions and coordinated activities in a particular country like *guanxi* in China (e.g., Xin & Pearce, 1996), networked capitalism in the form of *keiretsu* in Japan (e.g., Dyer, 1996), business groups in Latin America and East Asia (e.g., Guillén, 2002; Khanna & Palepu, 2000; Kim, Kim & Hoskisson, 2010), public social capital (Adler & Kwon, 2002; Putnam, 1993), and others? While these ideas require much further work, they seem to be closer to the notion of informal institutions in North's sense than the cultural value frameworks of Hofstede (1980) or Schwartz (1994, 1999).

CONCLUSION

International business scholars have significantly expanded institutional theory by exploring the distinct cross-border condition that defines their domain of inquiry (Westney, 1993; Zaheer et al. 2012). The introduction of the construct of institutional distance, which develops the notion of institutional embeddedness to the international setting, and the voluminous work examining distance effects on various business outcomes, exemplify such contributions. Our review has documented the growth and proliferation of this literature and has analyzed its current state based on the three institutional perspectives: organizational institutionalism, institutional economics, and comparative institutionalism. We have synthesized the main findings and contributions in distance research, identified key theoretical and empirical ambiguities in the literature, and suggested some concrete recommendations for strengthening this line of work.

We believe that the richness of the institutional perspective reflected in its three strands has been extremely beneficial for institutional distance

research, providing numerous opportunities to study the cross-border impact on various strategic and organizational outcomes. At the same time, it has led to a number of ambiguities and problems in this area because international business scholars have often failed to recognize and/or articulate the distinct theoretical and empirical implications of the three perspectives. Thus, our overarching recommendation for strengthening distance research is to follow a more thoughtful and disciplined approach, starting with a clear determination of which institutional perspective is followed in a particular paper and why. This would lead to better explanation of the mechanisms linking institutional distance to the outcomes of interest and would drive the selection of appropriate measures “in sync” with the chosen perspective. Many of the detailed suggestions presented above can be adopted almost immediately, putting the field in the best possible position to build a reliable, replicable, and generalizable stock of knowledge on institutional distance. Others, for example, the incorporation of comparative institutionalism into distance research, are more challenging.

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APPENDIX

This [Appendix](#) describes the details of the meta-analytic approach we followed including sampling procedure, analytical method, and results details.

Sample

We coded 137 empirical papers, listed at the end of this [Appendix](#). This set of 137 is a subset of empirical studies of the 171 studies we included in our overall review of the literature. We collected the data in four rounds. In the first round using

Google Scholar, we searched across 19 top IB/IM journals for the key phrase: ‘institutional distance’ and identified 549 papers. The journal included were: *Academy of Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly*, *Strategic Management Journal*, *Journal of International Business Studies*, *Organization Science*, *Journal of International Management*, *Journal of Management*, *Journal of Management Studies*, *Global Strategy Journal*, *Journal of World Business*, *International Business Review*, *Asia*

Pacific Journal of Management, *International Journal of Management Reviews*, *Management International Review*, *Research Policy*, *Thunderbird International Business Review*, and *European Journal of International Management*. We checked the papers published in these journals manually to ensure that this was an empirical study.

In the second round, we used additional search terms, including “institutional difference”, “administrative distance”, “regulatory distance”, and “formal distance”. Third, we applied snowballing on 14 papers that introduced new measurements of institutional distance: Baik, Kang, Kim, & Lee (2013), Berry et al. (2010), Dikova (2009), Dikova et al. (2010), Estrin et al. (2009), Gaur & Lu (2007), Gaur et al. (2007), Gubbi et al. (2010), He et al. (2013), Lavie & Miller (2008), Li & Yao (2010), Petrou & Thanos (2014), Salomon & Wu (2012), and Xu et al. (2004). This process generated an additional set of 496 articles. Finally, we have repeated the first three rounds in January 2019 to include all papers published in 2017 and 2018, which yielded another set of 465 articles. Of all these papers, we selected those that used the institutional distance construct in empirical models testing various outcomes related to international business. An additional criterion for inclusion in the meta-analysis was that a certain correlation between institutional distance and a particular outcome (e.g., location choice) had to appear in at least two studies by different authors and at least three correlations. The resulting dataset for the meta-analysis included 954 correlations across 137 papers. Classifying these studies according to the dependent (outcome) variable, we have: 467 ID-performance correlations (84 papers), 364 ID-Entry Mode correlations (66 papers), 58 ID-Establishment Mode correlations (12 papers), and 45 ID-location choice correlations (7 papers). As some papers address multiple outcomes, the total number of papers is less than the number of topics addressed. Table 6 lists all the studies included in the meta-analysis.

Coding

Our coding has focused on the type of institutional distance, how it has been operationalized, and the four different dependent variables (performance and entry mode for which we show results in the main text, and location choice and establishment mode for which we only show detailed results in this “Appendix”—see Tables 7, 8). We also coded the way that studies have operationalized

institutional distance. Finally, we have included some study characteristics: specifically, whether or not the study has included multiple countries for both the home and host countries or if it is a single country study, and whether or not it has been published. Institutional distance was coded as specified by the primary study. So, if the primary study refers to regulatory distance, it is coded as such. If the primary study does not specify types of institutional distance, it is coded as unidimensional institutional distance. This resulted in six variations: unidimensional institutional distance, regulatory distance, normative distance, cognitive distance, formal distance, and informal distance. As explained in the main text, doing so allows us to distinguish between studies focusing on multidimensional operationalization in the “Northeastern” or the “Scottian” tradition. As explained in the main text, we have also attempted to code empirical papers in the comparative institutionalist tradition, mainly through the framework of Berry et al. (2010). However, the number of papers that discussed one of the four dependent variables of interest while simultaneously using the Berry et al. (2010) approach was too small to be used in our meta-analysis.

With regard to the way in which institutional distance was constructed and measured, we identified four different methods: Euclidean distance, the Kogut and Singh Index, Mahalanobis, differences, and other/unknown. We also coded which dataset is used to operationalize institutional distance. The main categories are: the WGI, the EFI, the ICR guide, the GCR (both the regulatory distance item set and the normative distance item set; Xu et al., 2004), the WCI (both the regulatory distance item set and the normative distance item set; Gaur & Lu, 2007; Gaur et al., 2007), Hofstede, and others. We would note that many studies that operationalized institutional distance also measured cultural distance (primarily using the Hofstede-based Kogut and Singh index) separately. As a result, there are studies that have operationalized formal and informal institutional distance via the WGI and the Hofstede-based Kogut and Singh cultural distance index, but there are also studies that have used the exact same datasets to operationalize unidimensional institutional distance and cultural distance. We have included both groups of studies in our meta-analysis, but despite the empirical similarity we have coded them differently. The first group is coded as formal and informal distance (thus including cultural distance). The second group is

coded unidimensional institutional distance, and cultural distance is *not* coded. The obvious reason is our focus on institutional distance. As the second group does not consider cultural distance to be part of institutional distance, we consistently follow the argumentation of the authors of these primary studies, and code it accordingly. Based on the same argumentation, we have also not included studies that only looked at cultural distance, and did not discuss institutional distance. Hence, if there is no measurement whatsoever of institutional distance, the study is excluded.

With regards to the dependent variables of this study, we consider: performance, entry mode/degree of ownership, location choice, and establishment mode. Performance includes accounting, market, survey, and survival measures. Furthermore, we have distinguished between performance of the MNC and performance of the subsidiary. Entry mode was operationalized in three distinct ways. First, (JV vs. WOS) takes value 1 if WOS and 0 if JV. Second, categorical values are used, where higher values indicated more ownership. Third, entry mode has been operationalized as a continuous value of the degree of ownership. Location choice was measured as a dummy variable assuming the value of 1 if the country was chosen and 0 otherwise. Establishment mode (Greenfield vs. Acquisition) takes value 1 if Acquisition or 0 if Greenfield.

Method

For each paper, we collected both the bivariate correlation (r) and the partial correlation coefficient ($r_{xy.z}$). To calculate the partial correlation coefficient we use the following procedure. First, we calculate either a t value or a z value (depending on the used analysis of the paper) through: Beta/Standard error = t/z value. Second, we use the following formula for calculating the PCC: $PCC = \sqrt{((t^2)/(t^2 + \text{Degrees of Freedom}))} \times \text{sign}$, or: $PCC = \sqrt{((z^2)/(z^2 + N))} \times \text{sign}$ (Greene, 2003). Several papers in the sample did not include the standard error or t value but reported the significance using asterisks. In order to derive a partial correlation coefficient from these observations, we use the t (or z) value associated with the mean of the indicated p value category. For instance, when a study indicates that the observation has a two-asterisk significance, it means that the upper bound of the p value is 0.05 and the lower bound of the p value is 0.01; therefore, we use a p value of 0.03.

Similarly, a three-asterisk significance indicates an upper bound of 0.01 and a lower bound of 0; therefore, we use a p value of 0.005. Consequently, the p value is converted to either a t value or a z value (depending on which one is appropriate), and through the use of the t (or z) value, the PCC is calculated. Finally, when multiple measurements of the focal effect are reported in one study (e.g., due to the reporting of results for different operationalizations of institutional distance, the use of multiple samples, or through different operationalizations of the dependent variable), we included all of them in our analyses. Monte Carlo simulations show that procedures using the complete set of measurements outperform those representing each study with a single value in areas like parameter significance testing and parameter estimation accuracy (Bijmolt & Pieters, 2001).

We employ the Hedges–Olkin-type Meta-Analysis (HOMA) to determine the mean size of the effect of institutional distance on performance, location choice, entry mode and establishment mode. We perform our computations using random-effects HOMA, which accounts for potential heterogeneity in the effect size distribution and is more conservative than fixed-effects HOMA (Kisamore & Brannick, 2008; Raudenbush & Bryk, 2002). To accurately account for differences across effect sizes, we weight each effect size by its inverse variance weight, w , the inverse of the squared standard error (Hedges & Olkin, 1985).

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