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Why wait? Organizational learning, institutional quality and the speed of foreign market *re*-entry after initial entry and exit

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ABSTRACT

Using a unique dataset of over 1000 foreign marketre-entries by multinational enterprises, we draw on organizational learning and institutional theory perspectives to examine the antecedents of speed of foreign market re-entry into previously exited markets. Contrary to expectations, we find that the length of experience accumulated between initial entry and exit does not lead to earlier re-entries. In turn, the depth of experience accumulated through operating via joint ventures and the nature of the experience determined by the exit process have a significant impact for early re-entrants. Host country institutional quality leads to early re-entry and, under certain circumstances, moderates the relationship between learning from past experiences and re-entry speed. Our findings reveal experience-based learning to be a complex and dynamic process, one highly dependent on the quality of the institutional setting of the firm. Theoretical and practical implications of the paper are discussed, along with directions for future research on international business strategies.

1. Introduction

Notwithstanding the pervasiveness of foreign market re-entry, when and how multinational enterprises (MNEs) return to already exited markets is not yet fully understood (Surdu, I., Mellahi, K., & Glaister, K., 2018; Surdu, Mellahi, & Glaister, 2015; Vissak & Francioni, 2013; Vissak & Zhang, 2015; Welch & Welch, 2009). Guided by market entry research, we draw on learning and institutional theories to examine how prior experience and the institutional context influence an MNE's speed of foreign market *re*-entry into an already exited market. Our knowledge of the antecedents of speed of re-entry into a foreign market is informed primarily by research into initial market entry decisions (Chetty, Johanson, & Martín Martín, 2014; García-García, García-Canal, & Guillén, 2017; Gaur, Kumar, & Singh, 2014; Jiang, Beamish, & Makino, 2014; Tan & Mathews, 2015). Grounded in learning theory, the crux of this burgeoning literature is that learning - the development of new knowledge or understanding as a result of past experiences which have the potential to impact on the future behavior of the organisation (Hurley & Hult, 1998, p. 43) - is an important determinant of the MNE's speed of entry into foreign markets (Casillas & Moreno-Menendez, 2014; Surdu, I., Mellahi, K., & Glaister, K. W., 2018). What is more, different types of experiences are expected to impact international business strategies such as speed of entry depending on whether they accentuate or reduce uncertainties associated with going into a new international market (see also Delios & Henisz, 2003; Gao & Pan, 2010; Hilmersson & Jansson, 2012). Learning enables the MNE to absorb and utilise knowledge acquired through different types of past experiences to better assess the risks and benefits associated with market entry strategies.

A second strand of literature draws on institutional theory to improve our understanding of market entry strategies (Meyer, Estrin, Bhaumik, & Peng, 2009; Surdu, I., Mellahi, K., & Glaister, K. W., 2018). The central tenet of this line of research is that the external, institutional environment takes a "rulelike status" regulating the behavior of firms and ensuring that they can engage in market transactions without incurring undue costs. These institutions include, for instance, the legal framework, intellectual property rights, protection of investment and their enforcement, and regulatory regimes (North, 1990; see also Levchenko, 2007). We adopt a broad differentiation of institutions into higher or weaker institutional quality environments. We consider environments to be of "high institutional quality" if they reduce the ambiguity associated with the rules which managers should follow when entering a host market. Higher institutional quality - by reducing confusion around what drives firms to successfully comply with host market institutional requirements - drives earlier entry into that market (Gaba, Pan, & Ungson, 2002; Hilmersson & Jansson, 2012; Hsu, Chen, &

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D’Arcy, 2017). Conversely, entering environments with "weak institutional quality" translates into greater perceived institutional ambiguity regarding changing trends in core dimensions of the institutional environment which may generate important hazards for the MNE's international expansion strategies, potentially leaving managers unclear about when to enter.

In this study, we extend previous research on the speed of foreign market entry by focusing on re-entry. We contend that the pervasive assumptions on the impact of past experience and institutional quality/ambiguity and speed of entry need to be revised in the context of re-entry because the latter has some unique features that differentiate it from initial entry. As noted earlier, speed of entry is explained by learning which refers to the process of “encoding inferences” from past experiences into practices that guide the behavior of the firm (Levitt & March, 1988, p. 320). Yet, we argue that inferences from past experiences obtained in the same market considered for re-entry are different from those made from experiences gained in a different market as is the case in conventional market entry research (Welch & Welch, 2009). Further, the motive for exit and whether the MNE was pushed or voluntarily exited the market will shape how past experience is interpreted which subsequently influences re-entry (Surdu, I., Mellahi, K., & Glaister, K. W., 2018). Experience accumulated through successes may be different and less impactful on learning from that accumulated through mistakes or failures (Surdu, I., Mellahi, K., & Glaister, K. W., 2018; Xia, Boal, & Delios, 2009; Zeng, Shenkar, Lee, & Song, 2013). This is more relevant for re-entrants which have been once unsuccessful and decided to exit, or for re-entrants which have been pushed from a market.

Experiences do not take place in a context-free-vacuum. Hence, the interpretation and usefulness of past experiences by MNEs are shaped by the quality of the institutional context within which they operate (Argote & Miron-Spektor, 2011; Hilmersson & Jansson, 2012; Luo & Peng, 1999). MNEs not only find it hard to evoke knowledge gained in weaker quality institutional environments where the rules of the game are ambiguous and laws are applied inconsistently, but they also find it difficult to interpret knowledge gained from such ambiguous environments (Luo & Peng, 1999). In contrast to high quality institutional environments, where the rules of the game are clear and creation, codification and retention of knowledge is relatively structured, in institutionally weak/ambiguous environments (March, 2010), managers revert to informal practices - often implicit and unobservable - and may turn to personal networks to circumvent institutional voids (Mellahi, Frynas, Sun, & Siegel, 2016) making it challenging for MNEs to learn from such experiences. We extend the broader market entry literature by examining the ambiguity reduction effects of institutional quality on the relationship between an MNE's past experience and speed of re-entry. We advocate that host institutional ambiguity is likely to account for the variance observed in the choice of international entry strategies such as when to re-enter an exited market.

Guided by research on the role of experience-based learning on MNE expansion (Luo & Peng, 1999), we further differentiate experience according to length of experience, depth of experience and nature of experience. We argue that experience may not always speed up re-entry. Specifically, we argue that length of experience, i.e., how long the MNE operated in the country, depth of experience, i.e. the degree to which the MNE engaged with local stakeholders/actors, and nature of experience, i.e., whether the MNE was forced to exit, have a differentiated impact on the lessons learned by firms which have exited and decided to re-enter. Hence, different types of experiences may influence the speed of re-entry in different ways. Such a fine-grained characterization of experience allows us to answer many previously unanswered questions about how the different types of experiences impact the MNE’s speed of international expansion. Do certain types of experiences speed up (re)-entry? Which ones reduce uncertainty and speed up (re)-entry and which ones accentuate it and delay (re)-entry? In addition, how do these experiences interact with the institutional environment to influence speed of (re)-entry?

Taken together, this study makes four contributions. First, it responds to recent calls for expanding the market entry research agenda by looking beyond the current dominant focus on initial foreign market entry, and for redirecting current research efforts towards a more phenomenon-driven perspective (Buckley, Doh, & Benischke, 2017; Shaver, 2013; Surdu & Mellahi, 2016; Surdu, I., Mellahi, K., & Glaister, K. W., 2018). Second, we re-examine prevalent assumptions on the impact of experience-based organizational learning and institutional quality on the speed of foreign market (re)-entry. Third, while previous research has examined the direct impact of past experience and institutional quality, this study also examines their interactive effect on speed of re-entry. We contextualise learning by capturing whether and how stronger institutional quality reduces ambiguity associated with a target market and increases the effectiveness of learning from experiences acquired in that market. Fourth, by unpacking experience into multiple types, we provide a finely grained analysis of the impact of the MNE's past experiences on organizational learning and subsequently on speed of foreign market re-entry.

2. Theory and hypotheses

2.1. Length of host market experience and re-entry speed

Acquiring market specific experience is a time-consuming process that narrows the gap between the actual knowledge a firm possesses and the knowledge it needs to reduce the uncertainty associated with the liability of foreignness (Casillas & Moreno-Menendez, 2014; Hilmersson & Jansson, 2012; Zhou & Guillén, 2015). Experience acquired over time becomes embedded in organizational routines and behaviors and thus, firms may find it easier to translate knowledge attained through past experience into learning (Sapienza, Autio, George, & Zahra, 2006; Tan, Hung, & Liu, 2007).

We contend that, having operated in the host market for a long period of time prior to exit, could lead to earlier re-entries. Our argument here is twofold. First, we argue that prior experiences accumulated over time can translate into increased confidence (March, 1991) in the ability of the firm to operate in the previously exited market. Spending a lengthier period of time in the market gives managers confidence that the firm has accumulated knowledge specific to that market, which increases the ability of the firm to evaluate its external environment (Zhou & Guillén, 2015). Previous studies focusing specifically on the relationships between experience, learning and organizational routines, have confirmed that MNEs which have been international for longer periods of time perceive themselves as being superior at integrating information into their routines and, therefore, more likely to learn (Casillas & Moreno-Menendez, 2014; see also Zhou & Guillén, 2015). For re-entrants, the routines established during the initial entry into the market may be perceived as relevant to that market when the firm decides to re-enter. More experienced re-entrants may not require significant increase in learning opportunities during the time-out period between exit and re-entry, for which reason they may reduce the length of the time-out period by re-entering earlier.

Our second and inter-related argument is that firms may fear that knowledge accumulated from prior experience becomes wasted if they do not re-enter relatively early. The longer firms stay out of the market, the more likely it is that such valuable prior knowledge and experience, such as knowledge attained from network relationships, understanding of consumer preferences, and generally, host market specific experience, will have dissipated (de Holan, Phillips, & Lawrence, 2004; Cegarra-Navarro & Moya, 2005; Tsang & Zahra, 2008). This is problematic because acquiring knowledge through experience is a costly

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