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# Host-country location decisions of early movers and latecomers: The role of local density and experiential learning

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### ABSTRACT

Service firms such as banks and hotels typically locate multiple foreign affiliates in the same host country. Often, these location patterns occur in waves with early movers followed by latecomers; for example, the early entries of Japanese banks into the U.S. market in the 1970s and 1980s were followed by emerging-market Asian banks in the 1990s. Using insights from the agglomeration and organizational learning literatures, we argue that local density and experiential learning affect location choices within a host country, and that these relationships differ between early movers and latecomers. We test and find support for our arguments using a sample of Asian banks in the United States over 1997–2003.

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## 1. Introduction

The host-country location decisions of multinational enterprises (MNEs) have long been of interest to international business scholars (Dunning, 1981, 1988; Grosse & Trevino, 1996; Hymer, 1976; Johanson & Vahlne, 1977). Country-level factors such as market size and income, factor costs, and cultural, institutional and geographic distances are important influences on MNE location decisions (Caves, 1996; Dunning, 1988). MNEs prefer host-country locations that offer opportunities to exploit their distinctive organizational capabilities (Barney, 1991; Dunning, 1988; Sirmon, Hitt & Ireland, 2007), which can help overcome the disadvantages of operating at a distance and in unfamiliar settings (Hymer, 1976).

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While the foreign direct investment (FDI) location literature has traditionally focused on cross-country comparisons, other studies have explored MNE location decisions inside host countries (Chang & Park, 2005; Chung & Alcacer, 2002; Chung & Song, 2004; Head, Ries & Swenson, 1995). Ungado and Lee (2004) found that nationality was an important factor explaining the location choice for foreign manufacturing firms in the U.S. market. Some scholars have argued that foreign MNEs can benefit from co-locating with home-country firms and/or the same industry in the host country (Chang & Park, 2005; Kuilman & Li, 2009). MNEs may co-locate in communities that share their home country ethnicity, implying that local density of home-country affiliates affects location decisions (Chang & Park, 2005; Chung & Alcacer, 2002; Chung & Song, 2004; Head et al., 1995).<sup>5</sup> Miller, Thomas, Eden and Hitt (2008), for example, argued that ethnic identity is a valuable, costly-to-imitate resource, which can help firms achieve competitive parity with local firms in the host country.

Outward FDI from emerging markets is a relatively new phenomenon (Hoskisson, Eden, Lau & Wright, 2000; Luo & Tung, 2007). Emerging market firms tend to have fewer resources than developed market firms and face greater costs due to weaker competitive environments (Eden & Miller, 2004; Huang & Sternquist, 2007; Miller & Parkhe, 2002). Emerging market multinationals are therefore typically younger and less experienced than MNEs from developed markets. As a result, when emerging market MNEs enter a host country, other multinationals from developed markets will typically already be in place. Developed market MNEs form the first wave, the *early movers*; emerging market MNEs form the second wave, the *latecomers* to the host country. The question “Where should I locate my affiliate inside this host country?” thus becomes a complex decision for foreign MNEs because the potential action of the focal firm may depend upon whether the firm is entering during the first wave (*early movers*) or second wave (*latecomers*).

There has been little work on waves of inward FDI although the pattern is well-known in the North American auto industry (see, for example, Eden & Molot, 2002). In our paper, we address this issue, asking: *How do the expansion paths of early movers and latecomers to a host country differ?* To answer this question, we draw on the agglomeration and organizational learning literatures to examine the location-expansion choices of early movers and latecomers inside a developed market. We argue that entrants, regardless of timing of entry, adopt the location choices of prior entrants from the same home country; that is, “birds of a feather flock together”. We contend that differences in experiential learning can also dictate the location decisions of early movers and latecomers. Timing matters; early movers can learn from their prior host-country experiences and from experiences of their MNE affiliates; these forms of learning are normally less available to latecomers. As a result, the within-country expansion patterns of early movers and latecomers differ over time.

We use service-industry MNEs as our sample because they normally establish multiple affiliates inside a host country. First, unlike most manufacturing firms, service firms typically cluster by operating multiple units in the same location in order to be close to their customers (e.g., Greve & Mitsuhashi, 2004; Hellman, 1994; Wu & Strange, 2000). Prior studies underscore the importance of localized competition for service firms (Baum & Mezas, 1992; Hannan, Carroll, Dundon, & Torres, 1995; Miller & Eden, 2006). Second, for service firms, prior experience in a particular location is an important factor affecting the next location choice. The firm must choose whether to establish a new affiliate in (a) a local market where the firm already has established affiliates (which would deepen its geographic commitment to that location, which we refer to as *local depth*) or (b) a new location (which would broaden the firm’s geographic scope within the host country, which we refer to as *national breadth*). Thus, to understand the location decisions of service firms – unlike most manufacturing firms – one must look not only at their previous experiences in a particular local market, but also their prior experiences in other local markets (Baum, Li & Usher, 2000).

The particular industry we study is banking. Internationalization strategies in the banking industry have been of interest to international business scholars for some time (Goldberg & Grosse, 1994; Grosse & Goldberg, 1991; Hasegawa, 1993; Mutinelli & Piscitello, 2001; Qian & Delios, 2008; Tschoegl, 1987, 2002; Yamamori, 1997; Yamamori, 1998). Much of this literature has focused on the strategies of Japanese banks, which began to internationalize in large numbers in the 1980s.<sup>6</sup> Little attention, to our knowledge, has been paid to emerging market banks, the most recent latecomers to international banking, with recent exceptions of Miller and Eden (2006), Petrou (2007) and Miller et al. (2008).

While other researchers have studied sequential FDI location decisions from the MNE’s perspective, we believe our paper is the first to focus on the expansion-path process for different expansion waves inside the host country. Our paper explains the effects of local density and prior experiences on the location-expansion decisions of service MNEs during different waves. We thus extend the work of Chang and Park (2005), Hasegawa (1993), Majocchi and Presutti (2009) and Miller et al. (2008) to show how location patterns within a host country are affected by the timing of entry. Specifically, we explain how the effect of these drivers of location-expansion choices depends on the wave, that is, on early movers and latecomers. We test our hypotheses on the location-expansion choices of Asian banks that have entered the U.S. market, providing an opportunity to explore different waves of entry and different forms of experiential learning.

<sup>5</sup> Ethnic enclaves form over time as immigrants seek to reunite with previous family migrants, and reduce their initial unfamiliarity with the host country (Bartel, 1989). Ethnicity therefore represents a specific form of group identity (e.g., Ashforth & Meal, 1989; Wuthnow, Marty, Gleason & Moore, 1992).

<sup>6</sup> For example, Japanese banks were likely to serve ethnic populations in the local market in the early stage of investment (Qian & Delios, 2008; Tschoegl, 1987).

## 2. Theory and hypotheses development

### 2.1. Agglomeration and entry decisions

The agglomeration literature argues that there are positive externalities arising from the co-locating of firms in an industry (Porter, 1990). Positive externalities include knowledge spillovers among rivals, specialized labor resources, and specialized supporting industries that may enhance the performance of the co-locating firms (Shaver & Flyer, 2000). For example, Head et al. (1995), Shaver and Flyer (2000), and Chung and Song (2004) found that Japanese firms choose to locate their U.S. manufacturing plants in states where there are other Japanese firms.

For firms making host-country location-expansion decisions, the prior actions of other firms from the same home country offer meaningful information (Henisz & Delios, 2001). Firms tend to model themselves after firms that are successful (Nelson & Winter, 1982) or that share particular characteristics or traits, such as being from the same home country (Henisz & Delios, 2001). Decision makers may wait to establish affiliates in a particular market until others have first proven the niche to be a viable one (Leifer & White, 1987). When the number of home-country firms in a local market of a host country is low, increases in the local density of home-country affiliates may provide additional legitimacy to their affiliates. We therefore expect that foreign entrants will first co-locate with firms from the same home country.

However, firms that have found a niche – such as serving home-country customers in the local market – only benefit by adding new affiliates near existing ones as long as there are local-market opportunities to exploit (Herriott, Levinthal, & March, 1985). Once the local density of home-country affiliates rises to high levels, congestion makes it difficult for new entrants to generate acceptable returns, and this discourages further entry. Not only profitability but also the ability to survive falls as the number of firms competing in the same market rises past congestion levels (Greve, 2000). The positive agglomeration externalities of co-locating with other firms are eventually outweighed by the negative externalities from intensified competition in both product and factor markets. Greve's (2000) findings, along with those of Chang and Park (2005) and Miller and Eden (2006), imply that there is a curvilinear relationship between local density and the likelihood of establishing a new subsidiary in a particular local market.

Below, we apply these insights from prior literature to firms that enter into a host country during different waves. We first examine location decisions of early-mover service firms and then of latecomers. For example, banks and insurance firms tend to follow one another into a country (Hellman, 1994). Because service firms typically establish multiple units in multiple locations, early movers, by virtue of their longevity inside the host country, tend to have large numbers of affiliates with the host country. How do early-mover MNEs decide where to put their next affiliate? Based on prior literature, we argue that, initially, early movers are likely to co-locate with home-country competitors because these actions provide valuable information (Henisz & Delios, 2001). In any given location, as the number of home-country competitors in that location increases, each new entrant benefits from increased legitimacy due to co-location. However, increases in local density of home-country affiliates eventually generate congestion and heightened rivalry, making that location less attractive for entry by another home-country firm. The isomorphic pressures for co-location are eventually offset by competitive pressures, causing a focal firm to spread out and seek other locations within the host country. Therefore:

**Hypothesis 1a.** There is a *curvilinear* relationship between the local density of home-country affiliates and the likelihood of an *early mover* establishing an affiliate in a given local market inside a host country, such that the relationship is initially positive but eventually peaks and tapers off.

Now let us consider the location decision from the viewpoint of the latecomers. International expansion produces a high degree of uncertainty for a firm (Sanders & Carpenter, 1998), particularly for emerging market firms that are latecomers to investing overseas (Lovallo & Kahneman, 2003). Facing uncertainty about foreign environments, latecomer firms to a host country are likely to pay attention to the prior actions of similar others and co-locate with other affiliates from the same home country. Because the latecomers are early in their location-expansion paths, the local density of their home-country affiliates in any location is low. Thus, the benefits from co-location (legitimacy gains, which can be viewed as a form of positive externality) are not offset by competitive pressures from congestion, and more entry should continue to occur. For example, banks from mainland China are late entrants to the United States, arriving in the 1990s; for these banks the legitimacy gains from further co-locating should be high and the likelihood of competitive pressures low. We therefore expect the local market entry rate for a latecomer to have a positive linear relationship with the local density of home-country affiliates because these firms are early along their expansion path inside the host country. Thus:

**Hypothesis 1b.** There is a *positive* relationship between the local density of home-country affiliates and the likelihood of a *latecomer* establishing an affiliate in a given local market inside a host country.

### 2.2. Heterogeneity between early movers and latecomers

At any one point in time, we expect the location decisions of latecomers and early movers to differ because of heterogeneity between the two groups of entrants in terms of prior experience within the host country. By the time that latecomers begin to enter the host country, the early movers will already have established affiliates. Having other affiliates in the host country enables the early-mover entrant to engage in both local and non-local experiential learning. Each affiliate

learns from its own experiences and from those of its other affiliates, both in the particular local market and elsewhere inside the host country. Latecomers, on the other hand, lack developed host-country affiliates so their learning should be primarily local experiential learning. We argue that differences in experiential learning affect firms' organizational search processes and therefore lead to heterogeneity between the location-expansion paths of early movers and latecomers when examined at the same point in time.

Organizational learning theorists see organizations as routine based, history dependent and adapting to past experiences (Cyert & March, 1963; March & Simon, 1958). Organizations with experience in a given activity are more likely to replicate the activity (e.g., Greve, 2000; Nelson & Winter, 1982). Organizational search is the process through which organizations attend to and adapt to their external environments by looking for “alternatives and information about specific courses of action” (Baum et al., 2000, p. 768). Firms are more likely to pay attention to prior actions and choices that are strategically proximate – in terms of time or space – than to prior actions and choices that are less proximate. Firms are likely to engage in search processes that tend to be local (Cyert & March, 1963; March & Simon, 1958). Local experience makes it easier to acquire knowledge about local market conditions, competition, customer preferences, and suitable adjoining locations (Greve, 1996, 1998). Studies have shown that such repetition can lead to establishment of a new affiliate near an existing affiliate (Herriott et al., 1985).

We therefore argue that, in the early stage of its location-expansion path, a foreign entrant first emphasizes *local depth* because its experiential knowledge is geographically focused. In the later stages as the MNE's host-country presence deepens and its experiential learning grows, the firm starts to trade off local depth for more *national breadth*. That is, as its host-country presence expands, local depth (establishing a new affiliate in an existing local market) gives way to national breadth (establishing a new affiliate in a new local market).

Latecomers, on the other hand, are more likely to focus on local depth rather than national breadth because they have a smaller presence and less opportunity for experiential learning inside the host country. Anecdotal evidence, for example, suggests that Asian-owned banks in the United States in the 1990s have tended to use incremental expansion inside local markets such as Los Angeles rather than expansion elsewhere inside the United States, thus favoring local depth over national breadth (Fest, 2005).

The availability of resources, especially slack resources, may also be a relevant factor affecting location decisions. Prior research has shown that firms endowed with slack resources may be more inclined to engage in exploratory search (Nohria & Gulati, 1996). Latecomers from emerging economies are more likely to be resource deficient compared to early movers from developed markets (Thomas, Eden, Hitt & Miller, 2007). In order to enter multiple locations within a host country, an entrant must have sufficient resources and capabilities to avoid “getting spread too thin”, which would negatively affect the firm's ability to compete effectively with domestic rivals. In general, we therefore expect that a developed market entrant is more likely to have resources (especially slack resources) than an emerging market entrant and is therefore better able to balance local depth in with national breadth. Since developed market MNEs historically have been early movers relative to emerging market MNEs in terms of outward FDI, the slack resources argument therefore provides additional support for our hypothesis that a latecomer firm, in the early stage of its location-expansion path, is more likely to focus on local depth than national breadth when compared to an early-mover entrant.

In sum, heterogeneity between early movers and latecomers in terms of their host-country prior experience (derived from differences in the number and location of the MNE's affiliates inside the host country) affects the focal firm's location-expansion path in terms of choosing between local depth and national breadth within the host country. Thus:

**Hypothesis 2a (Local depth).** There is a positive relationship between an *early mover's* prior experience in a *local market* and the likelihood of establishing another affiliate in the given local market inside a host country.

**Hypothesis 2b (National breadth).** There is a positive relationship between an *early mover's* prior experience in *other local markets* and the likelihood of establishing another affiliate in the given local market inside a host country.<sup>7</sup>

**Hypothesis 3 (Local depth).** There is a positive relationship between a *late mover's* prior experience in a given *local market* and the likelihood of establishing another affiliate in the same local market inside a host country.

### 3. Methods

#### 3.1. Data and analytical approach

To test our hypotheses, we obtained data on U.S. affiliates of Asian banks; our dataset contains banks from nine countries: Japan, Hong Kong, Indonesia, mainland China, Malaysia, Singapore, South Korea, Taiwan and Thailand. The Federal Reserve Board and Federal Deposit Insurance Corporation (FDIC) provided data on the locations, establishment dates, and organizational forms (i.e., representative offices, branches, agencies, Edge Act Corporations, and subsidiaries of banks) of U.S. affiliates of banks from Asian countries.

<sup>7</sup> In other words, prior experience in market B encourages firms to be more likely to explore and locate their next affiliate elsewhere; this increases the probability of the firm's entry into given local market A.

We categorize bank affiliates from Japan as developed-market early movers to the United States; affiliates from other Asian countries are categorized as emerging-market latecomers. Our categorization is based on foreign bank entry data into the United States, from the U.S. Federal Reserve Board. For example, in 1988, banks from these nine Asian countries held total U.S. assets of U.S. \$399.3 million; this total was only 0.06% of all foreign bank assets in the United States. (Almost all foreign bank assets in the United States until the 1990s were held by Canadian and European banks.) Of the nine Asian countries in 1988, Japanese banks held the lion's share of U.S. bank assets at 90.4%. Thus, non-Japanese Asian banks were barely visible in the United States in the 1980s. However, by 10 years later, bank assets from these nine countries had grown to U.S. \$454.7 billion, representing 22% of foreign bank assets in the United States in 1998. Japanese banks maintained their relative share, with 92.0% of Asian bank assets, followed by Hong Kong (6.4%), South Korea (1.2%), Indonesia (0.7%) and Taiwan (0.7%).<sup>8</sup>

We examined local market entry rates of Asian banks' affiliates during the period 1997–2003 in metropolitan statistical areas (MSAs) in the United States. An MSA is generally defined as "an area containing a recognized population nucleus and adjacent communities that have a high degree of integration with that nucleus" (Office of Management and Budget, 2000). MSAs represent the most common industry boundaries for studies involving commercial banks (Amel & Rhodes, 1988; Barnett, Greve & Park, 1994; Berger, 1995). A firm's location choices are based on "at risk" MSAs. For the first year of our sample, we defined an "at risk MSA" as one that has at least one foreign MNE affiliate during the three year period 1994–1996. Once an MSA is deemed at risk, it remained at risk for each sample year. Thus, for each year  $t$ , at risk MSAs equals the number of at risk MSAs as of year  $t - 1$  plus any new MSAs entered by Asian banks during year  $t$ .

Because we are studying entry rates, we employed event history analysis where the unit of analysis was the event history of each affiliate's entry into an MSA. For each affiliate, we used the date of entry into a focal MSA as the beginning of the analysis. We created a dichotomous dependent variable that equals zero if a foreign firm did not establish an MNE affiliate in a particular MSA during a particular year  $t$ , and equals one if the affiliate was established. We used Cox's proportional hazards model, which is a common technique to model event histories when the statistical function of the hazard rate is unknown or not assumed beforehand (Morita, Lee & Mowday, 1993), and has the advantage of addressing any potential problems of right-hand censoring. We tested the proportional hazards assumption and could not reject the null hypothesis that the hazards are proportional; therefore, we stratified the sample by country of origin of each affiliate. Stratifying the sample allows the baseline hazard rate to vary across countries of origin (Gimeno, Hoskisson, Beal & Wan, 2005).<sup>9</sup> Our early mover sample of Japanese banks consists of 1633 observations; the latecomer sample (Asian emerging market banks) has 2858 observations.

We estimated our models using the STCOX procedure in STATA/SE 8.0. To account for the potential non-independence of spells from each event history, we used robust standard errors clustered at the MNE parent level (Gimeno et al., 2005). Given that we have independent variables that vary on an annual basis, we split the sample into spells (or periods of time), as is customary in event history analysis (Gimeno et al., 2005).<sup>10</sup>

### 3.2. Key variables

*Local density of home-country affiliates* is measured by the number of offices of home-country banks in a particular metropolitan statistical area (MSA) for a given year divided by the local home-country human population. The denominator is measured as the number of people from the focal firm's corresponding home country in the metropolitan statistical area as reported by the U.S. Census Bureau. Because the census data is reported every 10 years, we interpolate the population for years 1997–1999 using 1990 and 2000 population data, and extrapolate for 2001–2003. We also include *local density of home-country affiliates squared* to test for a curvilinear relationship.

*Prior experience in the local market* equals the number of offices for a given bank in a particular MSA in a given year. *Prior experience in other local markets* equals the number of non-local offices of a given bank considering entering a particular MSA in a given year.

<sup>8</sup> The 1988 data reported here are from Grosse and Goldberg (1991, p. 1099); the 1998 data are from US Treasury (2010). The 2009 data (not reported here), available for download from <http://www.federalreserve.gov/releases/iba/201006/bycntry.htm>, are similar to 1998 except that the shares for mainland China and for Taiwan have risen to 2.8% and 3.9%, respectively.

<sup>9</sup> The hazard function consists of two parts. Part one is a "function of duration time" (Kennedy, 2008, p. 277) and is referred to as the baseline hazard, or  $\lambda_0(t)$ . Part two is a function of explanatory variables – other than time variables – and written as  $\exp(x'\beta)$ , where  $x$  is a vector of one firm's attributes that may vary with time (Kennedy, 2008). The hazard function is the product of these two expressions, that is  $\lambda(t) = \lambda_0(t) \exp(x'\beta)$ . The proportional hazard model is popular because it can be estimated by maximizing a simpler function – the partial likelihood – rather than the full likelihood, without jeopardizing efficiency. Moreover, this estimation method is unaffected by the baseline hazard model specification. One potential disadvantage is that the baseline – and thus the full hazard function – is not estimated. However, this is not an issue if the focus of the analysis is on "the influence of the explanatory variables", which is the case in the present study.

<sup>10</sup> "Splitting event histories into arbitrary spells did not affect the consistency of estimates, since it did not modify the overall likelihood function of the model. Although splitting cells would create more observations, these observations would be arbitrary splits of time and would not modify the relevant event rate..." (Gimeno et al., 2005, p. 307).

### 3.3. Control variables

#### 3.3.1. Parent-level controls

*Parent size* is the natural log of the parent firm's assets in year  $t$ . *Parent age* is the difference between the current year of the study and the establishment date of the parent bank. If banks merged, the firm age was based on the establishment date of the oldest of the merging banks. Data for firm age are obtained from the Federal Reserve, FDIC, [Bankersalmanac.com](http://www.bankersalmanac.com), Moody's and BankScope. Parent level data are obtained from Bank Scope, Mergent Online, and The Banker.

#### 3.3.2. MNE affiliate controls

We include a dummy variable for the type of affiliate (see Segala, 1979, for a detailed description of organizational forms of banks). *Branch office dummy* equals one if the affiliate is a branch office, and zero otherwise. We also include a control variable for unfavorable outcomes (e.g., failure/closure).<sup>11</sup> *Local exits of home-country affiliates* equal the number of exits of affiliates from the same home country from the local market in a given year. This variable takes into account firm-specific actions that occurred as a result of the economic crisis in Asia (Wan, Yiu, Hoskisson & Kim, 2008). Moreover, this variable takes into account more recent patterns for both Asian emerging market banks and Japanese banks (e.g., mergers followed by office closures).

#### 3.3.3. Other host country controls

To test whether foreign firms adopt the location patterns of host-country competitors we include *local density of host-country competitors*, measured by the number of U.S. banking offices in the metropolitan statistical area in a year divided by the non-Asian local human population, based on FDIC's Call Report data. We also include the square of this variable to test for curvilinear effects. The local non-Asian human population is obtained from U.S. Census Bureau. In the analysis of the latecomer location-expansion decisions, we include *local density of early-mover affiliates* (that is, Japanese affiliates) to control for the likelihood that a latecomer (an Asian emerging market bank) follows prior actions of the early movers.

Note that in our analysis of Japanese location expansion, this variable is the same variable as *local density of home-country affiliates*. It is for this reason that we estimate the two samples in separate equations. The variable *local density of home-country affiliates* for the Japanese firms (i.e., the early movers) is the same variable as *local density of early-mover affiliates* for the late movers (i.e., the Asian emerging market firms). If we were to merge the two samples we would have a serious multicollinearity problem.<sup>12</sup>

## 4. Results

Summary statistics are presented in Table 1. Two variables show relatively high correlations, but the total Variance Inflation Factor (VIF) for each model is below 5.2 and well within the acceptable range. Table 2 presents the results for location-expansion decisions of the early movers (i.e., Japanese banks) and Table 3 for the latecomers (i.e., Asian emerging market banks). All models are stratified by home country. Model 1 in each table includes the control variables; Model 2 includes the control and main-effect variables; Model 3 adds in the squared term for local density of home-country affiliates; and Model 4 adds in interaction effects. The Wald Chi-squared statistics are statistically significant for all models. The control variables (branch, parent size and age, and local exits of home-country affiliates) are all statistically significant for the early mover entrants, but not significant for the latecomers.

Looking first at the early movers (Table 2), H1a predicts a curvilinear relationship – a positive relationship at low and medium levels, peaking and turning negative at high levels – between the local density of home-country affiliates and the likelihood that an early mover enters the same local market. In Model 3 of Table 2, the coefficient for local density of home-country affiliates is positive and significant at the 5% level, while the coefficient for local density of home-country affiliates squared is negative and significant at the 1% level; together they reveal an inverted U-shaped relationship, supporting H1a.

Table 3 provides results for the location-expansion decisions of latecomers. In Model 2, we report a positive coefficient of .42, which is significant at the 1% level, for local density of home-country affiliates. The coefficient remains positive and increases in size when we add the squared term for local density of home-country affiliates in Model 3; however, the squared term is not statistically significant. This finding supports H1b; that is, the location-expansion path of latecomers is positively and linearly related to the local density of home-country affiliates. We therefore find support for our argument that the location choice of an early-mover entrant has an inverted U-shaped relationship with the local density of home-country affiliates (H1a); whereas the relationship is positive for a latecomer entrant (H1b).<sup>13</sup>

<sup>11</sup> Not every exit/closure of an affiliate is necessarily a failure.

<sup>12</sup> To provide an estimate for the full sample would require an *emerging market* dummy variable that equals one for a focal firm from an emerging market (zero for Japan) and an interaction variable – *emerging market*  $\times$  *local density of early mover affiliates*. For the Japanese firms; however, the values for *local density of home-country affiliates* would be equal to the values for *local density of early mover affiliates*, thus creating a multicollinearity problem.

<sup>13</sup> We cannot graph these relationships, unfortunately, because we used Cox's proportional hazards model with stratification by multiple countries. Survivor functions cannot be plotted when there is more than a two-way stratification. See <http://stata.com/statalist/archive/2004-04/msg00139.html> and <http://www.stata.com/statalist/archive/2009-05/msg00408.html>.

**Table 1**  
Summary statistics and correlations.

Variable	Mean	S.D.	1	2	3	4	5	6	7	8
1 Branch	0.36	0.48								
2 Parent size (millions of U.S. dollars)	221.00	340.00	−0.40							
3 Parent age	48.86	36.26	−0.15	0.33						
4 Focal firm's prior experience in other local markets	3.61	3.89	−0.42	0.77	0.19					
5 Focal firm's prior experience in the local market	0.07	0.38	−0.06	0.13	0.03	0.14				
6 Local density of home-country affiliates	0.70	4.71	−0.04	0.11	0.03	0.09	0.69			
7 Local density of host-country competitors	623.42	612.78	−0.01	0.01	−0.00	0.00	0.48	0.47		
8 Local exits of home-country affiliates	0.10	0.47	−0.04	0.17	0.04	0.14	0.19	0.10	0.18	
9 Local density of Japanese affiliates	2.13	7.83	0.00	−0.02	0.00	−0.01	0.60	0.69	0.68	0.14

Mean and standard deviations are actual values not centered at zero, nor logarithmically transformed (size and age) for reporting purposes. Correlations are significant when the absolute value of the correlation is greater than or equal to .03.

**Table 2**  
Location-expansion decisions of early movers inside a host country.<sup>a</sup>

Variables	Model 1	Model 2	Model 3	Model 4
<b>Control variables</b>				
Branch	−1.48 <sup>†</sup> (0.80)	−2.07 <sup>*</sup> (0.94)	−2.17 <sup>*</sup> (1.06)	−2.10 <sup>*</sup> (0.90)
Size	−0.83 (0.68)	−2.68 <sup>**</sup> (0.74)	−2.67 <sup>**</sup> (0.79)	−2.61 <sup>**</sup> (0.70)
Age	0.49 (0.34)	0.92 <sup>**</sup> (0.21)	0.89 <sup>**</sup> (0.19)	0.86 <sup>**</sup> (0.18)
Local exits of home-country affiliates	0.48 (0.30)	0.60 <sup>*</sup> (0.27)	0.59 <sup>*</sup> (0.24)	0.44 (0.32)
Local density of host-country competitors	1.69e−3 <sup>***</sup> (1.76e−4)	1.07e−3 <sup>*</sup> (5.38e−4)	1.03e−4 (5.8e−4)	1.06e−3 (8.34e−4)
<b>Independent variables</b>				
Local density of home-country affiliates		−0.01 (0.04)	0.17 <sup>*</sup> (0.07)	0.20 <sup>**</sup> (0.07)
Prior experience in the local market		0.94 (0.63)	0.79 (0.50)	0.79 <sup>†</sup> (0.45)
Prior experience in other local markets		0.29 <sup>**</sup> (0.10)	0.29 <sup>**</sup> (0.10)	0.27 <sup>**</sup> (0.09)
Local density of home-country affiliates squared			−2.38 <sup>**</sup> (0.80)	−2.36 <sup>**</sup> (0.77)
Local density of host-country competitors squared				−4.55e−7 (3.23e−7)
Local density of home-country affiliates × local exits of home-country affiliates				0.01 (0.04)
Prior experience in the local market × local exits of home-country affiliates				0.03 (0.18)
Observations	1633	1633	1633	1633
Partial log-likelihood	−69.51	−60.97	−57.46	−56.48
Wald Chi-squared	136.03 <sup>***</sup>	161.87 <sup>***</sup>	273.41 <sup>***</sup>	265.88 <sup>***</sup>

<sup>a</sup> Robust standard errors in parentheses.

<sup>†</sup> Significant at 10% level.

<sup>\*</sup> Significant at 5% level.

<sup>\*\*</sup> Significant at 1% level.

<sup>\*\*\*</sup> Significant at 0.1% level.

We turn now to the impacts of the MNE's host-country affiliates and opportunities for experiential learning on the firm's location-expansion decisions. Looking first at the early movers in Table 2, H2a and H2b predict that a new entry by an early mover is positively related to the MNE's own local depth and its national breadth, respectively. The coefficient for prior experience in the local market (local depth) is not statistically significant, except for very weak, positive support in Model 4. We therefore conclude that local depth is not an important factor influencing location for early movers, contrary to H2a. However, there is a positive coefficient for prior experience in other local markets (national breadth) in Models 2–4 in Table 3, which provides strong support for H2b. For latecomer entrants, H3 predicts a positive linear relationship between prior experience in the local market (local depth) and the likelihood of a latecomer establishing a new affiliate in the same market. Our results in Table 3 show that the coefficient for prior experience in the local market is positive in each model, supporting H3.

To demonstrate that the focal firm's location choices inside the host country are based on adopting the prior actions of its home-country firms, we must also take account of other possible expansion patterns. We therefore include two additional sets of control variables in our regressions. First, we include the local density of *host-country* competitors and local density of *host-country* competitors squared to test whether the focal firm might also cluster with *host-country* firms. Second, in the

**Table 3**  
Location-expansion decisions of latecomers inside a host country.<sup>a</sup>

Variables		Model 1	Model 2	Model 3	Model 4
<b>Control variables</b>					
Branch		–1.36 (1.54)	–1.60 (1.35)	–1.52 (1.35)	–1.70 (1.64)
Parent size		2.46 <sup>†</sup> (1.29)	1.44 (1.21)	1.21 (1.19)	1.65 (1.81)
Parent age		–1.90 (1.47)	0.38 (1.18)	0.64 (1.21)	0.25 (1.61)
Local exits of home-country affiliates		4.12 <sup>**</sup> (0.76)	1.61 (0.99)	1.44 (1.00)	1.04 (0.84)
<b>Independent variables</b>					
Local density of home-country affiliates	H1b		0.42 <sup>**</sup> (0.15)	0.66 <sup>*</sup> (0.29)	0.69 <sup>*</sup> (0.34)
Local density of host-country competitors			–0.00 (0.00)	–0.00 (0.00)	–0.00 (0.00)
Local density of early-mover affiliates			0.02 (0.02)	0.02 (0.02)	0.01 (0.02)
Prior experience in the local market	H3		2.17 <sup>**</sup> (0.73)	2.07 <sup>**</sup> (0.75)	2.09 <sup>*</sup> (0.97)
Prior experience in other local markets			–1.53 <sup>†</sup> (0.92)	–1.61 <sup>†</sup> (0.93)	–1.59 (1.01)
Local density of home-country affiliates squared				–18.52 (24.56)	–16.73 (31.43)
Local density of host-country competitors squared					0.00 (0.00)
Local density of home-country affiliates x local exits of home-country affiliates					0.05 (0.35)
Prior experience in the local market x local exits of home-country affiliates					0.50 (0.67)
Observations		2858	2858	2858	2858
Partial log-likelihood		–73.6	–30.30	–30.11	–29.82
Wald Chi-squared		125.36 <sup>***</sup>	286.17 <sup>***</sup>	273.98 <sup>***</sup>	331.53 <sup>***</sup>

N = 4136; # of subjects = 969.

<sup>a</sup> Model stratified by home country. Robust standard errors (in parentheses) were adjusted for clustering by affiliate/MSA.

<sup>†</sup> Significant at 10% level.

<sup>\*</sup> Significant at 5% level.

<sup>\*\*</sup> Significant at 1% level.

<sup>\*\*\*</sup> Significant at 0.1% level.

latecomer regressions, we also include local density of the *early-mover* affiliates (i.e., Japanese bank affiliates) to determine whether latecomers are influenced by clustering of early movers. The coefficients for local density of host-country competitors and for local density of host-country competitors squared are not statistically significant for either early movers (Table 2) or latecomers (Table 3), except in one regression (the 5% level in Model 2 of Table 2). We therefore find little support for the argument that foreign entrants adopt the location patterns of host-country competitors. Our results also show that latecomer firms do not adopt the location paths of early movers since the local density of early movers is not statistically significant in any of the regressions in Table 3.

While we did not hypothesize about the impacts on latecomers of prior experience in other local markets, we do include this variable in Table 3. The coefficient is weakly significant and negative in Models 2 and 3, but not statistically significant in the full model. This finding is consistent with our view that latecomers emphasize local depth rather than national breadth, since a firm with experience in other local markets is less likely to establish an affiliate in a given local market.

Model 4 is included to show other possible interactions – and includes the squared term for local density of host-country competitors (based on prior agglomeration studies) – as a test of robustness.<sup>14</sup> The coefficients for these interactions are not statistically significant and the standard errors for the other variables are roughly the same as those reported in Model 3. In Models 3 and 4 of Table 3, we provide our robustness test for the two interactions and include the squared term for local density of host-country competitors. It is also important to note that for latecomers, we predicted a linear relationship (not a curvilinear relationship as discussed in the extant literature). To demonstrate that it is linear, we had to include only the linear term (Model 2) and then add the squared term (Model 3). As expected, the linear and squared terms are somewhat correlated, so the standard error for the linear term increased in Model 3, but the hypothesized relationships remained in Models 3 and 4. As such, we contend that multicollinearity does not affect the results of our study.

<sup>14</sup> It is Model 4 of Tables 2 and 3 where the individual VIFs are approximately 5. The other models comply with the Allison (1999) threshold.



## 5. Discussion and conclusions

In this paper, we have sought to explain the location-expansion choices of early mover and latecomer service firms that enter a developed market, using a sample of Asian banks entering the United States. Prior literature exploring MNE location decisions inside host countries (Chang & Park, 2005; Chung & Alcacer, 2002; Chung & Song, 2004; Head et al., 1995) has focused on local density as an explanation for agglomeration patterns inside the host country; however, this literature has overlooked the implications for MNEs that enter during different waves. The agglomeration literature has devoted little attention to the overall expansion trajectory of foreign entrants to a host country; we argue that this trajectory is an important but understudied characteristic of service industries, where MNEs typically establish multiple affiliates in a host country. Moreover, little has been done to understand FDI entry from the perspective of waves of inward FDI into a host country that, in turn, lead to differences in experiential learning for early movers and latecomers. Prior research has examined, for example, local density as a predictor of market entry, but typically has focused only on a single action (e.g., Chang & Park, 2005) rather than repeated actions.

We contribute to this earlier literature by examining sequential location paths of two different waves of entrants into a host country. Our distinction between early movers and latecomers helps to explain patterns of local market entry and expansion decisions, which until now have been overlooked in the agglomeration literature. By distinguishing between these two sets of service firms, we are able to provide supporting evidence that latecomers do not adopt different local market entry strategies than early-moving firms. Rather, latecomers are at a different stage along a similar location-expansion trajectory or blueprint.

Our results suggest that entrants from both groups understand that ethnic identity is a valuable resource in a host-country local market, which can help reduce liability of foreignness in the host country. We find that local density of home-country affiliates and the MNE's host-country affiliates and experiences are important variables affecting location choice. Our results therefore extend the agglomeration literature by showing that both early movers and latecomers have location strategies that entail experiential learning and adoption of the prior actions of home-country rivals. The key difference between the two groups is that early movers are further along their host-country expansion path than the latecomers.

Our paper also contributes to the literature on coping mechanisms for liability of foreignness. By including local density of host-country competitors and local density of early movers as control variables in our regressions, we found that foreign entrants do not adopt the location-expansion choices of host-country firms, nor do latecomers adopt the location-expansion choices of early movers. Our results provide support for Kostova, Roth and Dacin, who argue that in multinational enterprises, "there is limited institutional isomorphism" (2008, p. 999).

Our study suffers from some limitations, which can perhaps be remedied in future work. First, we have not taken into account differences across emerging markets. In order to focus on understanding two waves of inward FDI, we have treated the Asian (non-Japanese) emerging-market banks as a group, rather than differentiating among them. Clearly, there are differences in the history and trajectories of, for example, Hong Kong and mainland China banks in the United States. Moreover, there are differences in the resources home countries can provide to their latecomer MNEs to facilitate outward FDI. For example, three mainland Chinese banks (ICBC, CCB and Bank of China) were among the top seven banks in the world in terms of market capitalization in 2007 (WIR, 2008). Many Chinese banks are state owned (even when publicly traded), which can provide advantages in terms of financial resources but can also generate hostilities and greater liability of foreignness in the U.S. market (Eden & Miller, 2010).

Second, even though our results suggest that a latecomer firm is more likely to engage in local depth (entering a local market where it already has an established presence) than national breadth (entering a new market), by no means do we mean to imply that all latecomer service firms focus exclusively on local depth of a single market. Royal Asian Bank, for example, operates in multiple local markets including New York, Los Angeles and Atlanta while Woori Bank (South Korean) has a presence in local markets of six U.S. states (Blumenthal, 2007). These examples suggest that a few Asian emerging market banks are moving along their U.S. expansion paths not only by deepening their presence in existing MSAs but also by broadening into new MSAs throughout the United States.<sup>15</sup>

Third, although we found support for our framework using a sample of Asian banks from 1997 to 2003, another issue involves the predictive ability of our framework in the future, for example, as digital banking expands or during financial crises.<sup>16</sup> Many Japanese banks experienced economic challenges during the period under study. In fact, some of the struggling banks merged (e.g., Dai-Ichi Kangyo merged with Fuji Bank and Industrial Bank of Japan to form Mizuho Holdings, AsiaPulse News, 1999). We deal with this issue by including recent exits/closures as a control variable. We also account for market experience of the owner of a foreign affiliate prior to the renaming of the organization following the merger. As such, our analysis accounts for recent exits/closures of bank affiliates stemming from environment shocks such as the 1997 Asian

<sup>15</sup> In the present study, it has also been suggested that there is growing competition for Asian customers (Blumenthal, 2007). However, the Asian-American population has maintained strong growth to temper competitive pressures. Our results may provide some evidence of competition, in that "there are times when two or three Asian banks join forces on large loans or deals get around lower lending limits" (Blumenthal, 2007).

<sup>16</sup> Evidence suggests that consumers still perceive digital electronic banking as a risky alternative to handle banking transactions and prefer traditional personal contact within banking offices (Curran & Meuter, 2005). Therefore, banks still need to establish affiliates abroad in order to provide face-to-face services that consumers perceive as reliable and trustworthy. Thus, location-expansion decisions for foreign banking affiliates should continue to be important strategically.

currency crisis. Our paper may therefore provide direction on how future shocks may affect location decisions of emerging market banks entering developed markets. If recent entries by home-country rivals decrease, this will be reflected in a firm's likelihood of entering into or expanding within a particular local market. As such, we are able to understand the pace of expansion into local markets.

Moreover, the current international financial crisis has heavily affected U.S. banks (UNCTAD, 2008). The growing number of U.S. banks filing for bankruptcy offers a window of opportunity for foreign entrants. We predict that many foreign banks will take advantage of this opportunity to acquire U.S. banks and increase their penetration of the U.S. market. Thus, latecomer and early mover choices of local depth or national breadth may well be altered by bankruptcies of host-country competitors.

There are several possible extensions to our study. First, key to our analysis is that the MNE parent establishes multiple locations within the host country. One could therefore test these relationships for other service firms such as hotels, restaurants or gas stations. Another opportunity for future research is to test these relationships in other host countries (e.g., Europe), or with banks from other home regions (e.g., Latin America). Performance effects should also be studied. Since location choices are critical decisions that can affect the survival and long-term performance of foreign affiliates in host countries, an opportunity for future research entails examining the financial and market performance of latecomers. Other types of MNE strategies besides location could also be studied such as mode of entry and product differentiation strategies. There are also other location issues that could usefully be studied such as the impact of federal and state-level banking legislation and location subsidies on the pattern and timing of foreign bank entry. Lastly, one plausible extension is to assess the generalizability of our framework from the operations in one host country to a service firm's operations at worldwide – including its home country operations. We leave this generalization of our framework to future research.

In conclusion, this paper sought to deepen our understanding of agglomeration by providing new insights into the seemingly differential patterns of location-expansion patterns of early movers and latecomers. We find that the old adage, “birds of a feather flock together”, does capture an important phenomenon, even for waves of inward FDI: both latecomers and early movers to a host country do tend to co-locate with other entrants from the same home country. With few home-country rivals in the local market and limited host-country experience, latecomers focus on local depth by adding new affiliates to the same location. As the local density of home-country affiliates rises and the MNE's host-country experience increases, early movers begin to trade off less local depth for more national breadth. If we examine early movers and latecomers at the same point in time, we conclude that early movers are simply further along the same host-country trajectory as the latecomers.

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