FROM THE RESEARCH BENCH

Institutional distance is asymmetric uncertainty

Entry direction, institutional quality, and prior experience change what distance means. Separate the mechanism before assigning a country risk.

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MANAGEMENT SUMMARY

Institutional distance is not one country-risk score. It can describe a relational difference between home and host institutions, or conceal the direct quality of the host environment. A review distinguishes those perspectives and finds that formal and informal dimensions do not behave interchangeably. Meta-analysis finds the overall relation to ownership commitment is negative while formal distance is not consistently significant in a multiple-home and host subsample. A study of 496 majority acquisitions by Italian firms into 41 countries examines location choice. A historical study of Dutch ventures adds learning and entry-mode limits. This review treats institutional distance as asymmetric uncertainty: ask who is entering, which institution is distant, what prior experience exists, and which decision is being explained.

Keywords: Institutional distance · Cross-border acquisitions · Institutional quality · Entry mode · Internationalization experience

Institutional distance is asymmetric uncertainty. The practical meaning depends on who is entering, which institution is distant, how strong the institutions are, what prior experience exists, and which decision is being explained. A single country-risk score cannot carry all five questions.

The distinction matters because distance can describe two different objects. It can describe a relational gap between home and host institutions. Or it can hide the direct profile of the host: regulatory quality, financial development, governance, or informal practices. Those objects can point in different directions.

Why does aggregate institutional difference diverge from country-specific institutional profiles?

Kostova and colleagues review institutional-distance research through organizational institutional, institutional-economic, and comparative-institutional perspectives (Kostova et al., 2020). Their central warning is measurement discipline: a study should distinguish a difference between countries from the direct institutional profile of the country being entered.

In their meta-analytic review, the overall relation between institutional distance and ownership commitment is negative, while formal institutional distance is not consistently significant in the subsample with multiple home and host countries (Kostova et al., 2020). Informal institutional distance remains negative in the reported analysis (Kostova et al., 2020). This is not a universal sign rule. It is a reason to ask whether a one-home or one-host design is attributing a host condition to a relational distance.

Why does institutional distance generate asymmetric risk depending on entry direction?

Depperu, Galavotti, and Baraldi study 496 completed majority cross-border acquisitions by Italian firms in 41 countries from 2008 to 2018 (Depperu et al., 2024). Their outcome is location choice: whether a completed target is in an emerging market, not whether the acquisition later performs well. In that setting, regulatory efficiency and financial development distance deterred emerging-market entry, while INFORMAL institutional distance was positively associated with such acquisitions (Depperu et al., 2024). Context experience moderated some relationships. This page previously named cultural distance as the positive dimension, which is not the dimension the paper reports.

The result is useful because it refuses a single institutional-distance effect. Regulatory rules, financial systems, governance, and cultural interpretation are not interchangeable burdens. Prior experience can change the uncertainty attached to one dimension without erasing the others.

Table 1 The institution behind the distance

Declaration	What to name	Why it matters	What not to infer
Direction	Home, host, entrant, target, or both parties	The same gap can create different work for each side.	Distance is not automatically symmetric.
Dimension	Regulatory, financial, governance, informal, cultural, or another construct	Dimensions can carry different mechanisms and signs.	A composite score is not a mechanism.
Experience	Relevant prior country, cultural-block, or institutional experience	Learning can alter uncertainty for some entry modes.	Experience does not erase institutional difference.
Decision	Location, entry mode, ownership, commitment, or post-deal outcome	The construct's meaning depends on the decision.	Location choice is not acquisition performance.
Evidence boundary	Home country, period, sample, and source of the measure	Context limits transportability.	A historical or single-home result is a current global score.

Author's decision table grounded in Kostova et al. (2020), Depperu, Galavotti, and Baraldi (2024), and Barkema, Bell, and Pennings (1996). The table is a mechanism declaration, not a country-risk score.

How does localized operating experience reduce perceived uncertainty without altering institutional rules?

Barkema, Bell, and Pennings study 225 foreign ventures from 13 large nonfinancial Dutch firms between 1966 and 1988 (Barkema et al., 1996). Their event-history models distinguish entry mode and report learning effects concentrated in acquisitions and majority or equal joint ventures, with the most consistent location effect associated with prior experience in the same country or cultural block. The sample is historical and narrow. It does not create a current country-risk benchmark.

Its contribution is the distinction between an institutional difference and an organization's ability to work with it. Experience may reduce the uncertainty of a repeated interface. It does not make the host institution identical to the home institution, and it does not transfer automatically from one decision to another.

What strategic diagnostic question must precede institutional distance scoring?

Before assigning a country or target a distance label, complete the table. If the answer is a distance label but the underlying issue is a host regulatory condition, record the condition instead. If the answer is experience but the experience is in a different entry mode, record the mismatch. If the outcome is location choice, do not silently use the result to predict post-deal performance.

The better score may be no score. A decision record that names the uncertain institution and the testable consequence can be more informative than a scalar whose direction is not declared.

How should expansion teams identify the exact legal and regulatory institutions crossed?

The word institution can hide several different work problems. A formal rule may be visible in a regulation or ownership constraint. A financial system may affect how capital is supplied or reported. A governance practice may shape enforcement. Informal norms may change how authority, trust, or obligation is interpreted. These are not interchangeable distances.

Kostova and colleagues review organizational institutional, institutional-economic, and comparative-institutional perspectives and emphasize the distinction between relational difference and direct country profile (Kostova et al., 2020). The practical consequence is to name the institution before using the distance label. If the issue is regulatory efficiency, record that. If it is informal practice, record that. A composite score may still be used as an input, but it should not be allowed to conceal the mechanism.

This also improves the boundary of a risk statement. A claim that the country is distant is too broad to test. A claim that the entrant has limited experience with the host's licensing interface names a work problem and leaves room for evidence. The second sentence may still be wrong, but it can be challenged.

How does moving from strong to weak institutions create divergent operational requirements?

The same pair of countries can create different uncertainty for an entrant and a host. The entrant may need to learn how rules are applied. The host may need to interpret unfamiliar authority or commitment. The target may be evaluating whether the new owner will preserve local practices. Calling the comparison asymmetric does not assert a universal mathematical property. It names the possibility that the practical work differs by position.

Depperu, Galavotti, and Baraldi examine completed majority acquisitions by Italian firms into 41 countries and focus on location choice rather than post-deal performance (Depperu et al., 2024). Their findings show different directions for regulatory efficiency, financial development and the informal institutional dimension in that setting (Depperu et al., 2024).

being collapsed into one country score. It does not tell another entrant which risk it will face.

The decision record should therefore state who is moving, who is receiving the move, and which institutional interface is expected to change. Direction is part of the evidence, not just a label on the map.

Why is institutional operating experience non-transferable across foreign markets?

Experience can reduce uncertainty at a repeated interface without changing the underlying institution. Barkema, Bell, and Pennings model foreign-venture longevity in a historical sample of Dutch firms and tie learning effects to prior experience, entry mode, and cultural blocks (Barkema et al., 1996). That result does not create a current global learning curve. It gives a useful boundary for the word experience.

Experience in one country may not transfer to another. Experience with an acquisition may not transfer to a joint venture. Experience with formal compliance may not solve an informal trust problem. The relevant question is not whether the organization has international experience in the abstract. It is whether it has encountered the same interface under a comparable decision.

This distinction helps explain why a familiar country can still carry uncertainty and an unfamiliar country can sometimes be navigable. Familiarity is not a guarantee. It is evidence about one part of the learning burden.

How can multinational teams replace national distance stereotypes with empirical testing?

Write the internationalization case as a sequence of claims. First, name the institution and the direction. Second, state the uncertainty it creates for the entrant or host. Third, identify the experience that may reduce that uncertainty. Fourth, specify the decision outcome that will reveal whether the interpretation was useful.

If the outcome is location choice, do not use it as a post-deal performance claim. If the outcome is ownership commitment, do not turn it into a universal entry recommendation. If experience is the proposed remedy, name the interface it actually covers.

The result may be a smaller score or no score at all. That is an improvement when the scalar was carrying several unresolved mechanisms. Institutional distance becomes a useful decision input only when the uncertainty behind it remains visible.

Where are the analytical boundaries of institutional distance theory?

The held literature supports a multidimensional and directional reading of institutional distance, with experience and outcome boundaries. It does not support a universal country ranking, a single sign for every internationalization decision, or a conversion of location-choice evidence into a performance forecast. The useful object is the institution and mechanism behind the distance label.

The direction question connects to cultural distance and the base country and the proven playbook meeting a new market, where cross-border comparisons keep their starting conditions visible.

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END OF ESSAY

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