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# **How a Firm's Domestic Footprint and Domestic Environmental Uncertainties Jointly Shape Added Cultural Distances: The Roles of Resource Dependence and Headquarters Attention**

ABSTRACT. Even though many firms conduct most of their business domestically, international management research has remained remarkably silent on the role of a firm's domestic footprint in its internationalization strategy. We shed light on that role by exploring how the size of a firm's domestic footprint influences the cultural distance that the firm adds to its country portfolio when expanding internationally. Integrating resource dependence theory and the attention-based view, we hypothesize that a firm's domestic footprint has a negative relationship with added cultural distance (ACD), and that domestic policy uncertainty strengthens this relationship whereas domestic demand uncertainty weakens it. We find robust support for our hypotheses in a sample of the world's largest retailers covering the period 2000-2007, indicating that a firm's domestic footprint and domestic environmental uncertainties jointly shape cross-cultural expansion strategies. Our findings suggest that ACDs reflect headquarters executives' desire to avoid ineffective foreign expansions, hinting at possible biases in studies of the performance effects of distance.

**Keywords:** added cultural distance, attention-based view, domestic footprint, domestic uncertainty, foreign expansion, resource dependence theory

## INTRODUCTION

Despite ever growing levels of international trade and foreign direct investment, most firms, including many of the world's largest ones, still perform the bulk of their activities in their home country and can therefore be said to have a large *domestic footprint* (Asmussen, 2009; Carpenter and Fredrickson, 2001; Hejazi, 2007). In the most comprehensive firm-level analysis of geographic footprints to date, Oh and Rugman (2014) found that the 804 firms that appeared on Fortune's *Global 500* list over the period 1999-2008 on average realized 54% of their sales domestically, a percentage comparable to that reported for the largest British firms (Rugman and Verbeke, 2007). Like other scholars (Carpenter and Fredrickson, 2001; Yip, Rugman and Kudina, 2006), Oh and Rugman also found substantial variation across their sample firms, with more than a quarter of them even realizing all of their sales domestically.

Even though the domestic footprint of many firms has been shown to be sizeable, this footprint has been largely omitted as an explanatory factor from the substantial body of research that has aimed to explain firms' behavior outside their home market (for a review, see Dunning and Lundan, 2008). This is unfortunate because the observed variation in domestic footprints around their sizeable mean provides an excellent opportunity to explore their role in firms' international strategies. One of the few extant studies of this role found that the domestic footprint of exporters from Wisconsin and Illinois was negatively associated with the amount of resources they committed to their existing foreign markets (Cavusgil, 1984). Whether a firm's domestic footprint also influences its decisions regarding expansion into *new* foreign markets is still unclear, however.

We aim to start filling this lacuna by exploring the effect of a firm's domestic footprint on the so-called 'added cultural distance' (ACD), defined as the total cultural distance that an internationalizing firm adds to its country portfolio in a given time period (Hutzschenreuter and Voll, 2008; Hutzschenreuter, Voll and Verbeke, 2011). While international management (IM) research on cultural distance has traditionally focused on the cultural distance to individual countries (e.g., Kogut and Singh, 1988; Vaara, Sarala, Stahl and Björkman, 2012), ACD accounts for the fact that firms may enter multiple countries in the same time period. This more comprehensive approach is warranted because firms may implement expansion projects for different countries around the same time and

because an individual project, such as the acquisition of a multinational competitor, may involve multiple countries. Furthermore, whereas the cultural distance to a country entered has traditionally been calculated relative to a firm's home country, in ACD studies that distance is calculated relative to the culturally closest country in the firm's extant country portfolio, which is seldom the firm's home country. The reasoning behind this approach is that the culturally closest operating location is generally the main source of cultural knowledge for a new foreign entry (Barkema, Bell and Pennings, 1996) and therefore the most appropriate reference point (Hutzschenreuter and Voll, 2008; Hutzschenreuter et al., 2011). Of the four main forms of distance (Ghemawat, 2001), cultural distance is the hardest to interpret and cope with (cf. Kostova and Zaheer, 1999: 70), suggesting that decisions on ACD may have particularly large consequences and therefore need to be made carefully. Indeed, ACD has been shown to strongly hinder further international expansion (Hutzschenreuter et al., 2011).

Integrating resource dependence theory (RDT) (e.g., Campling and Michelson, 1998; Drees and Heugens, 2013; Pfeffer and Salancik, 1978) and the attention-based view (ABV) (e.g., Bouquet, Morrison and Birkinshaw, 2009; Ocasio, 1997; Yu, Engleman and Van de Ven, 2005), we argue that firms with a larger domestic footprint are generally more dependent on domestic resources, causing the senior management of such firms to focus more of their attention on strategizing for the domestic market. As a result, these executives can devote less attention to strategy formation for international expansions and will therefore likely resort to formulating expansion strategies characterized by lower ACD. We therefore hypothesize a negative relationship between a firm's domestic footprint and ACD.

Furthermore, we propose that this relationship is contingent upon two types of domestic uncertainties concerning local resource contributions. Specifically, we distinguish between domestic uncertainty about governmental policies and domestic uncertainty about industry demand. We argue that whereas headquarters executives often can steer the outcome of the former type of uncertainty somewhat, they usually cannot steer the outcome of the latter type. We therefore propose that domestic policy uncertainty causes firms with a larger domestic footprint to allocate even more headquarters attention domestically to resolve such uncertainty favorably, whereas domestic demand

uncertainty causes them to allocate relatively more headquarters attention to foreign expansions to increase the chance that these expansions become successful hedges against that uncertainty. We therefore hypothesize that domestic policy uncertainty strengthens the negative relationship between a firm's domestic footprint and ACD, whereas domestic demand uncertainty weakens it.

Measuring the domestic sales footprint of a sample of the world's largest retailers and empirically relating that footprint to the cultural distance annually added by these firms over the period from 2000 to 2007, we find support for our hypotheses across a range of ACD measures and additional analyses. Overall, our findings suggest that ACDs reflect headquarters executives' desire to avoid ineffective foreign expansions and, hence, that ACDs are self-selected. This insight has important implications, since it raises the possibility that studies of the performance effects of distance obtained biased results, given that these studies implicitly assumed that cross-national distance decisions are made without consideration of their performance consequences (cf. Shaver, 1998).

Our study makes several noteworthy contributions. First, inspired by Hillman, Withers and Collin's observation that "there is much promise in integrating other theoretical lenses with RDT" (2009: 1416), we merge RDT with the ABV, resulting in a novel framework that explains how a firm's domestic footprint shapes its cross-cultural expansion strategy. RDT and the ABV fit well with each other since resource dependencies need to be managed and thus logically require managerial attention, and since extant applications of both theories share a focus on the behavior of senior executives (Drees and Heugens, 2013; Bouquet et al., 2009). Second, whereas prior studies have shown that a firm's domestic footprint is often substantial (e.g., Asmussen, 2009; Oh and Rugman, 2014), we are the first to explore its role in a firm's internationalization strategy. Third, by showing that different types of domestic uncertainties moderate the effect of a firm's domestic footprint on ACD in different ways, we add to the growing body of IM research on the role of home-country uncertainties (e.g., Tallman, 1988; Lee and Makhija, 2009; Holburn and Zelner, 2010). Finally, we make a methodological contribution to research on ACD by utilizing several complementary measures of the concept and showing that they yield results that are highly similar to those obtained for Hutzschenreuter et al.'s (2011) Hofstede-based measure.

## THEORY AND HYPOTHESES

### How a Firm's Domestic Footprint Influences ACD

According to RDT, all firms depend to some degree on resources owned or controlled by external actors (Drees and Heugens, 2013; Hillman et al., 2009; Pfeffer and Salancik, 1978). Such resources encompass any tangible, financial, technological, and human means and any endorsements that firms may receive from external market and non-market actors, including governmental protection and approval, inputs from suppliers and alliance partners, and payments by buyers (Kotter, 1979; Pfeffer and Salancik, 1978). A firm's dependence on external resources in a given environment is determined by the firm's vulnerability to a reduction in the provision of such resources. The more a firm's performance would suffer from such a reduction, the greater its dependence on the resources concerned (Drees and Heugens, 2013; Pfeffer and Salancik, 1978). All else equal, the larger a firm's domestic footprint, the more of its business it conducts domestically and, hence, the more it will likely suffer from a reduction in the resources it receives from domestic actors. That is, the larger a firm's domestic footprint, the more dependent on domestic resources it will likely be.

According to the ABV, firms' behavior is contingent on managerial attention, which has been defined as "the noticing, encoding, interpreting, and focusing of time and effort by organizational decision-makers on both (a) *issues*: the available repertoire of categories for making sense of the environment: problems, opportunities, and threats; and (b) *answers*: the available repertoire of action alternatives: proposals, routines, projects, programs, and procedures" (Ocasio, 1997: 189, emphasis in original). Firms have only a limited amount of managerial attention at their disposal at a given point in time for two reasons. First, individual managers have limited cognitive abilities and therefore a limited attention span (Ocasio, 1997). Second, new managers are hard to attract in the short run and need to be trained before their attention capacity can be fully utilized (Penrose, 1959; Hutzschenreuter et al., 2011). Consequently, managerial attention spent on some business areas generally goes at the expense of the managerial attention available for other areas (Barnett, 2008; Ocasio, 1997, 2011).

The distribution of managerial attention over different business areas is particularly relevant at the corporate level, since the attentional focus of managers operating at that level will likely have implications for a firm's strategic direction and, hence, its long-term performance (Ocasio, 1997;

Joseph and Ocasio, 2012; Eggers and Kaplan, 2009). Several studies have therefore used the ABV to explore the antecedents and performance implications of the way in which headquarters executives distribute their attention across businesses, particularly in an international context (Bouquet and Birkinshaw, 2008; Bouquet et al., 2009; Bouquet, Barsoux and Levy, 2015). A key finding has been that headquarters executives tend to allocate more of their attention to businesses located in countries on which their firm is more dependent for resources (Bouquet and Birkinshaw, 2008; Bouquet et al., 2015).

Since firms with a larger domestic footprint are generally more dependent on resources from their home country (as per RDT), and since firms that are more dependent on resources from a given country tend to allocate more headquarters attention to that country (as per the ABV), firms with a larger domestic footprint will likely allocate more headquarters attention domestically. Specifically, in such firms headquarters executives will likely spend a greater share of their time and cognitive capacity on strategizing for the domestic market. Among other things, they will likely be more involved in discussions with the national management team, domestic site visits, and interactions with key domestic actors such as suppliers, buyers, unions, and politicians. Consequently, firms with a larger domestic footprint will likely allocate less headquarters attention to the development of strategies for foreign expansions. As explained below, such firms will therefore likely add less cultural distance to their country portfolio when they expand internationally.

To successfully add high levels of cultural distance to their country portfolio, firms generally need to engage in extensive and complex forms of resource recombination, defined as the act of integrating a firm's extant resources with newly-accessed foreign ones (Hutzschenreuter and Voll, 2008; Hutzschenreuter, Voll and Verbeke, 2011; Verbeke and Asmussen, 2016). Consequently, the development of an effective expansion strategy involving high ACD generally demands much attention from headquarters executives. Specifically, they will likely need to put much time and effort into identifying which of their firm's extant resources from which corporate units can be successfully exploited in which potential target countries, and which complementary resources need to be accessed locally (Meyer, Mudambi and Narula, 2011). This process will likely require headquarters executives to evaluate and interpret a host of quantitative and qualitative data, engage in extensive discussions

among themselves and with external advisors, and make repeated field visits to get personally acquainted with local stakeholders and their standards and habits. The chance that headquarters executives are able to attend to these activities thoroughly is lower for firms with a larger domestic footprint, since such a footprint entails a greater attentional focus on domestic strategizing. To avoid spending too little attention on strategy formation for planned international expansions and thereby lower the chance that such expansions fail, headquarters executives of firms with a larger domestic footprint will likely resort to expansion strategies that they can successfully mold with less time and effort; that is, strategies characterized by lower ACD. Consequently:

*Hypothesis 1: A firm's domestic footprint is negatively related to added cultural distance.*

### **The Moderating Role of Domestic Uncertainties about Resource Contributions**

Although firms with a larger domestic footprint will likely be more dependent on domestic resources and therefore more vulnerable to reductions in the provision of those resources, the likelihood of such reductions is not the same for all countries. The reason is that countries are characterized by different levels of uncertainties about the continuation of local resource contributions to firms (Dunning and Lundan, 2008; Miller, 1993). The higher these uncertainties in a given home country, the more threatening the resource dependence embodied in a firm's domestic footprint and, hence, the more that footprint necessitates managerial action aimed at dealing with the domestic uncertainties.

According to RDT, senior managers have two main options for dealing with uncertainties about actors' resource contributions: they can attempt to actively influence the outcome of such uncertainties or diversify them away (Drees and Heugens, 2013; Pfeffer and Salancik, 1978). The relative attractiveness of these two options will likely depend on the nature of the uncertainty surrounding local actors' resource contributions. Whereas some forms of uncertainty are partly endogenous in that their outcome can be steered somewhat by individual firms, others are exogenous, meaning that the way in which they materialize is beyond individual firms' sphere of influence (Mascarenhas, 1982; Folta, 1998). Hence, firms will likely attempt to influence the outcome of endogenous uncertainties about resource contributions, whereas they will diversify away exogenous

uncertainties about such contributions (Campling and Michelson, 1998; Casciaro and Piskorski, 2005).

Perhaps the two most important macro-level uncertainties about resource contributions to firms are policy uncertainty and demand uncertainty (Brouthers and Dikova, 2010; Hill, Hwang and Kim, 1990; Miller, 1993). Policy uncertainty reflects the ease with which a given branch of a country's government can undo existing policies or implement new ones (Delios and Henisz, 2003; Holburn and Zelner, 2010) and, hence, the chance that individual or groups of firms at some point lose governmental resources such as permits, subsidies, legal freedom, or protection from foreign competition. Such uncertainty is a function of the degree to which power over policy change is concentrated in a single government branch rather than dispersed across branches (Henisz, 2000; Holburn and Zelner, 2010). Demand uncertainty, on the other hand, reflects the volatility of demand in a given national industry (Miller, 1993; Dunning and Lundan, 2008) and, thus, the chance that firms in the industry experience temporal reductions in demand at a given point in time and, accordingly, a lower inflow of monetary resources. As explained below, since domestic policy uncertainty is often partly endogenous whereas domestic demand uncertainty is generally exogenous, these two uncertainties about domestic resource contributions will likely have opposing effects on the degree to which a firm's domestic footprint channels headquarters attention to the domestic market and, thereby, on the degree to which that footprint constrains ACD.

Policy uncertainty is often partly endogenous (Henisz and Delios, 2004; Henisz and Zelner, 2003), since policymakers' preferences about governmental resource contributions to firms often can be somewhat influenced by headquarters executives through political activities such as lobbying, ad hoc coalition building, participation in industry bodies, and informal networking with politicians (Hillman and Hitt, 1999; Hillman, Keim and Schuler, 2004). By undertaking such activities, firms aim to resolve uncertainties about governmental resource contributions in their favor. As Hillman and colleagues state in their review of RDT, "firms actively seek to 'create' their environment by trying to shape government regulations that produce a more favorable environment" (2009: 1411). This is particularly true for large firms, such as the ones in our sample, as their political activities have been found to be more extensive than those of small firms (for reviews, see Hillman et al., 2004; Lux,

Crook and Woehr, 2011). Large U.S. retailers, for example, aim to shape U.S. legislation to their advantage by participating in the Retail Industry Leaders Association (RILA). Soon after President Trump took office, several CEOs of RILA member firms met him at the Oval Office to inform him “about the important role the retail industry plays in our national economy” and stress “the importance of taking a thoughtful approach to tax reform” (RILA, 2017a), which might involve the introduction of a tax on foreign-sourced goods. As stated by the association’s president, “RILA will work with industry partners and policymakers alike to ensure that any legislation omits this harmful border adjustable tax” (RILA, 2017b).

Corporate political activities usually require substantial attention from senior management, since they typically require repeated face-to-face meetings with lobbyists, politicians, and potential corporate coalition partners, and subtle managerial discourse (Schuler, 1996). The higher the policy uncertainty in a home country, we argue, the more a firm’s domestic footprint will cause headquarters executives to attend to that country in an attempt to steer the outcome of the uncertainty about governmental resource contributions. The reason is twofold. First, the higher the domestic policy uncertainty, the more the power over policy change is concentrated in a single government branch and, hence, the greater the clarity about which officials best to target with corporate political activities. Consequently, the higher the domestic policy uncertainty, the higher the chance that firms will succeed in their use of domestic political activities to obtain additional governmental resources (Holburn and Vanden Bergh, 2004; Schaffer, 1995). Securing such additional resources is generally more beneficial to firms with a larger domestic footprint, since the performance of such firms generally hinges more on domestic resources. Second, the greater the concentration of political power within a single government branch, the lower the countervailing power of other government branches and, hence, the higher the chance that firms will encounter unfavorable policy changes if they abstain from domestic political activities (Henisz, 2000; Delios and Henisz, 2003). The loss of domestic resources associated with such policy changes is generally more detrimental to firms with a larger domestic footprint, since the performance of such firms usually hinges more on continued access to domestic resources.

Since domestic policy uncertainty will likely cause firms with a larger domestic footprint to allocate even more headquarters attention domestically, such uncertainty will likely leave them with even less headquarters attention for the development of strategies for international expansions. Domestic policy uncertainty will therefore likely cause the senior management of such firms to resort to expansion strategies that can be successfully molded with even less time and effort; that is, strategies characterized by even lower ACD. Put differently:

*Hypothesis 2a: Domestic policy uncertainty strengthens the negative relationship between a firm's domestic footprint and added cultural distance.*

By contrast, domestic uncertainty about industry demand is generally exogenous, since the way in which that demand materializes is largely determined by macroeconomic factors such as economic growth, inflation, and interest rates, and therefore generally beyond individual firms' sphere of influence (Oxelheim and Wihlborg, 1987). Although firms can respond to temporal reductions in domestic demand *ex post* through 'push' measures such as sales promotion and extra advertising, and thereby mitigate domestic revenue losses (Blattberg, Briesch and Fox, 1995; Jedidi, Mela and Gupta, 1999), they are generally unable to influence upfront the way in which domestic demand uncertainty materializes.<sup>1</sup> Corporate-level executives are therefore unlikely to spend their limited attention on attempting to steer the outcome of such uncertainty.

Even though firms are generally unable to influence the way in which domestic demand uncertainty materializes, they do have an option at their disposal for effectively dealing with such uncertainty upfront. Specifically, they can diversify it away through foreign expansions, since foreign sales tend to provide a hedge against potential drops in domestic demand (Lee and Makhija, 2009; Kim, Hwang and Burgers, 1993). The higher the domestic demand uncertainty, the higher the chance that such drops in domestic customers' resource contributions occur and, hence, the stronger a firm's desire to turn new international expansions into successful hedges. The stronger that desire, the more strongly headquarters executives will be inclined to allocate their attention to planned international expansions rather than to the domestic market. This managerial inclination to attend relatively more to

planned international expansions as a function of domestic demand uncertainty will likely be stronger, the larger a firm's domestic footprint. The reason is that firms with a larger domestic footprint are more dependent on domestic customers' monetary resources and will therefore likely suffer more from decreases in the inflow of such resources if domestic demand uncertainty materializes unfavorably. For such firms it is therefore even more important to turn new international expansions into successful hedges in order to diversify away domestic demand uncertainty. Domestic demand uncertainty will thus weaken the inclination of firms with a larger domestic footprint to allocate more headquarters attention domestically and, hence, their inclination to resort to expansion strategies that can be successfully molded with less headquarters attention. Therefore:

*Hypothesis 2b: Domestic demand uncertainty weakens the negative relationship between a firm's domestic footprint and added cultural distance.*

## **METHODOLOGY**

### **Data collection and sample**

To test our hypotheses, we compiled a dataset containing all foreign market entries made by the world's largest retailers over the period 2000-2007. The data on these entries were derived from Deloitte's annual *Global Powers of Retailing* reports published over 2002-2009. Each report contains a ranking of the world's largest retailers based on their worldwide sales in a given year, and lists the national sales markets of those retailers in that year. The 2002, 2003, and 2004 reports list the national sales markets of the world's largest 200 retailers, whereas the subsequent editions list these markets for the world's largest 250 retailers. Where possible, we verified the listed sales markets in firms' annual reports. In the few cases where we encountered inconsistencies, we used the annual report data rather than Deloitte's data.

We selected the world's largest retailers as our research objects for several reasons. First, customer preferences in the retail industry differ substantially across national cultures (Ghemawat, 2001; De Mooij and Hofstede, 2002). In this industry, the formation of expansion strategies characterized by high ACD will therefore likely require much more headquarters attention than the

formation of expansion strategies characterized by low ACD. Consequently, retailers' ACD decisions will likely be sensitive to the amount of attention that their senior executives can devote to strategy formation for international expansions. That is, retailers' ACD decisions are likely to vary as a function of the domestic footprint of these firms. Second, by focusing on retailers, we keep constant the motive for international expansion, since retailers mostly enter foreign countries for market-seeking reasons (Dawson, 2007; Williams, 1992). Third, hypothesis 2a is based on the assumption that domestic policy uncertainty stimulates firms to undertake domestic political activities, especially when their domestic footprint is large. This assumption is plausible for the retailing industry, and especially for large firms in that industry, since retailers have been found to undertake substantial political activities in their home countries (Harrison, 2000; Hill, Kelly, Lockhart and Van Ness, 2013). Hill et al. (2013), for instance, found that the amount of lobbying in the U.S. retail industry is comparable to that in the U.S. tobacco and defense industries, both of which are politically sensitive industries. Fourth, by focusing on retailers from around the world, we were able to construct a dataset that not only includes multiple host countries but also multiple home countries, allowing us to examine whether and how domestic uncertainties moderate the effect of a firm's domestic footprint on its ACD decisions.

The population of our study consists of all retailers that appear on at least one of Deloitte's annual lists published between 2002 and 2009. While the vast majority of firms feature on each of these lists, some firms appear on fewer of them, owing to bankruptcies, acquisitions, and the expansion of the list from 200 to 250 firms in 2005. Our analyses are therefore performed on an unbalanced panel of 218 firms and their internationalization decisions over a period of up to seven years, corresponding to a sample of 1095 firm-year observations. 249 observations represent cases where a firm expanded internationally and thus added cultural distance to its country portfolio in a given year, with 43.8% of them representing expansions into multiple countries. The expanding firms originated from 17 home countries. The other 895 observations represent cases where a firm did not expand internationally in a given year. As explained below, we included these cases in our analyses in order to avoid sample selection bias.

The Deloitte reports also served as the source of data on the net profits annually realized by each sample firm, the retailing formats they used, and the level of domestic competition they faced from other retailers. Additional firm-level data were obtained from Thomson One Financial, Compustat, and firms' annual reports. Annual data on the characteristics of the firms' home countries were obtained from Henisz's POLCON database, Euromonitor's *Passport GMID* database, and the World Bank's *World Development Indicators* and *Worldwide Governance Indicators* databases.

### **Dependent variable**

To determine ACD, defined here as the total cultural distance that a firm adds to its country portfolio in a given year, we followed the procedure developed by Hutzschenreuter and colleagues (Hutzschenreuter and Voll, 2008; Hutzschenreuter et al., 2011). For every firm we determined the cultural distances to the countries that it entered during our sample window, and summed the cultural distances to any countries that it entered in the same year. When a firm entered only one country in a given year, the cultural distance to that country constitutes the ACD. To identify the cultural distance to a country entered, we calculated the cultural distances between that country and each of the countries in the firm's extant portfolio and selected the smallest of these distances. We did so because, as stated earlier, the culturally closest operating location is generally the main source of cultural knowledge for a new foreign entry and therefore the most appropriate reference point.<sup>2</sup> To calculate countries' cultural distances from each of the countries in a firm's extant portfolio, we used an extended version of Kogut and Singh's (1988) index that not only encompasses Hofstede's (1980) four original dimensions but also the two more recently identified dimensions of pragmatism and indulgence (Hofstede, Hofstede and Minkov, 2010).<sup>3</sup>

To assess whether the regression results for our Hofstede-based ACD measure also hold for other cultural aspects, we used a similar measurement approach to calculate the linguistic and religious distances added by a firm annually, using Dow and Karunaratna's (2006) data. The correlation of these measures of added linguistic distance (ALD) and added religious distance (ARD) with our ACD measure were 0.74 and 0.70, respectively, while their mutual correlation was 0.81.

## **Main independent variables**

Like earlier studies, we measure a firm's domestic footprint in a given year by the ratio of the firm's domestic annual sales to total annual sales (Carpenter and Fredrickson, 2001; Oh and Rugman, 2014; Rugman and Verbeke, 2007). We determined a firm's domestic sales by subtracting its foreign sales from its total sales. The data on firms' total and foreign annual sales were obtained from their annual reports, Thomson One, and Compustat.

Domestic policy uncertainty is operationalized through Henisz's (2000) POLCONIII index. This index measures on a zero-to-one scale the level of political constraints on policy changes in a given country in a given year based on data on: (i) the number of independent government branches (i.e., executive and lower and upper legislative) with veto power over policy changes, (ii) the homogeneity of the political party composition across the executive and legislative branches, and (iii) the heterogeneity of this composition within each legislative branch. We obtained the annual POLCONIII scores of the home countries of the sample firms from the 2013 release of Henisz's POLCON database. Consistent with earlier research (Henisz, 2000; Holburn and Zelner, 2010), we multiplied these scores by -1, so that higher (i.e., less negative) scores indicate lower political constraints and, hence, higher policy uncertainty.

To measure domestic demand uncertainty, we derived conditional variances from time series data on countries' annual consumption over the period 1990-2007, using generalized autoregressive conditional heteroskedasticity (GARCH) models (Bollerslev, 1986; Folta and O'Brien, 2004). These time series data were obtained from Euromonitor's *Passport GMID* database. We fitted a separate GARCH model to the time series for each home country, using an M[1,1] specification (Folta and O'Brien, 2004; Lee and Makhija, 2009). That is, we estimated GARCH-in-mean models in which we set to 1 both the number of lags for the squared error terms and the number of past variances to be included in the computation of the current variance. The conditional variances resulting from GARCH models capture the uncertainty that is not predictable about any trend that may exist for each period in the time series (Folta and O'Brien, 2004; Lee and Makhija, 2009).

To test hypotheses 2a and 2b, we interacted a firm's domestic footprint with domestic policy uncertainty and domestic demand uncertainty, respectively. All three variables were first mean centered in order to reduce multicollinearity concerns (Aiken and West, 1991).

### **Control variables**

To rule out alternative explanations for our findings, we control for several firm and home and host-country characteristics. We control for a firm's multinational diversity by entering the number of foreign countries in its portfolio in a given year (Barkema and Vermeulen, 1998; Tallman and Li, 1996). We do so to exclude the possibility that a firm's domestic footprint is negatively related to ACD because firms with a larger domestic footprint are internationally less diversified and therefore have a narrower cross-cultural experience base from which they can draw (Barkema and Vermeulen, 1998). Similarly, we control for a firm's product diversity by entering the number of retail formats in its portfolio (Gonzalez-Benito, Munoz-Gallego and Kopalle, 2005). The annual data on the number of foreign countries and retail formats in a firm's portfolio were obtained from the Deloitte reports, which list the national markets served by the sample firms in different years and the retail formats they used from a total of 13. We control for a firm's annual foreign sales because extant foreign operations may also require headquarters attention and therefore also cause headquarters' executives to resort to expansion strategies characterized by lower ACD. Likewise, country exits may require headquarters attention as well. We therefore control for the number of countries that a firm exited in a given year (Chan, Makino and Isobe, 2006), using the Deloitte reports as our data source. We also include a dummy variable coded 1 for firms listed in a given annual edition of either the Franchise Times' Top 200 or Franchise Direct's Top 100 of the largest global franchises, and 0 otherwise (El Akremi, Perrigot and Piot-Lepetit, 2015; Lawrence and Kaufmann, 2011). We enter this variable to account for the possibility that firms that make extensive use of franchisees face lower cultural barriers in foreign countries and are therefore inclined to add higher cultural distances to their country portfolios than firms predominantly relying on equity modes (Erramilli, Agarwal and Dev, 2002). Since global brand reputation is perhaps the most important downstream asset in the retail industry (Ailawadi and Keller, 2004) and since it may facilitate expansions involving high ACD, we also enter

a dummy variable coded 1 for firms listed in a given annual edition of either Interbrand's *Best 100 Global Brands* or BrandFinance's *Best 25 Global Retail Brands*, and 0 otherwise (Johansson, Dimofte and Mazvancheryl, 2012). Moreover, since cross-cultural expansion has been found to be more challenging for grocery retailers than for other types of retailers (Burt, Dawson and Sparks, 2004), we enter a dummy variable coded 1 for grocery retailers and 0 otherwise. We also enter a dummy variable coded 1 for U.S.-based retailers because 40.6% of the international expansions in our sample were undertaken by such retailers.

Besides controlling for the characteristics of firms, we also control for a range of characteristics of their home countries. We control for the size and growth rate of a firm's domestic market by entering the natural logarithm of total annual domestic consumption and the year-on-year growth of that consumption. The data on both variables were obtained from Euromonitor's *Passport GMID* database. We control for the quality of the formal institutions in each home country by entering home countries' annual scores on the World Bank's rule of law indicator (e.g., Liu, Feils and Scholnick, 2011), and for the intensity of peer competition in each home country by entering the number of retailers from Deloitte's lists that were active in a given home country in a given year.

Finally, we control for three characteristics of the countries entered, notably the size and growth rate of their market, and their institutional quality. For firms entering multiple countries in a given year, market size is the average of the market sizes of the countries entered, and market growth and institutional quality are market size-weighted averages. The data on these host-country characteristics were obtained from the same sources as their home-country counterparts.

### **Estimation method**

To avoid selection bias stemming from the fact that firms only add cultural distance to their country portfolio when they expand internationally, we test our hypotheses using Heckman's (1979) two-stage procedure, with the first stage predicting the likelihood of international expansion and the second stage the ACD characterizing such expansion. Following Wooldridge's (1995) approach appropriate for panel data, we estimate, in the first stage, a probit model with a dependent variable coded 1 if a firm entered at least one foreign country in a given year and 0 if it did not. This model contains all of

the independent variables described above, except for those measuring the characteristics of the countries entered, since these variables have missing values if a firm did not expand internationally in a given year. The first-stage model also contains two additional independent variables, i.e. a firm's age and its profitability, since these variables may also influence the likelihood of international expansion (Guillen, 2002; Hitt, Tihanyi, Miller and Connelly, 2006). A firm's age was measured by the number of years elapsed since the firm's founding, whereas its profitability was measured by its annual return on sales. The first-stage model yielded a so-called inverse Mills ratio, which was included as a correction term for selection bias in our second-stage ordinary least squares regressions of the ACD associated with international expansion. We executed Heckman's procedure in STATA 13 and clustered the standard errors in both stages by firm. Since it takes time to execute foreign expansions and add cultural distance, we lagged all time-varying independent variables by one year.

## RESULTS

The regression results for the first-stage probit model are displayed in the Appendix. They show that competition at home from other large retailers increases the likelihood of international expansion and thus acts as a 'push' factor in retailers' internationalization decisions, whereas the size and growth rate of the domestic market decrease the likelihood of international expansion and thus act as home-country 'pull' factors. In addition, retailers with more foreign countries in their portfolio and those with a reputable brand are more likely to expand internationally, whereas those selling groceries are less likely to do so. Interestingly, neither a firm's domestic footprint nor the interactions between that footprint and domestic policy and demand uncertainty exert significant influences on the likelihood of international expansion.

Table I reports the bivariate correlations and descriptive statistics for the variables included in the second-stage models. Except for the correlation between the indicators of a firm's product diversity and whether a firm is a grocery retailer ( $r=0.70$ ), all other correlations between the independent variables are lower than 0.6, suggesting the absence of multicollinearity in our regression models. This was confirmed by the fact that the variation inflation factors (VIFs) of all variables in all

models reported in Tables II and III were well below the commonly-accepted multicollinearity threshold of 10, with the highest VIF being 4.66 (Hair, Black, Babin, Anderson and Tatham, 2006).

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INSERT TABLES I AND II ABOUT HERE  
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Table II shows the results of the first set of OLS regression analyses that we ran to test our hypotheses. Model 2 tests hypothesis 1, which predicted that a firm's domestic footprint would be negatively related to ACD. This hypothesis is supported, since the regression coefficient of a firm's domestic footprint is significantly negative in Model 2 ( $p < 0.01$ ). Models 3 and 5 test hypothesis 2a, which proposed that domestic policy uncertainty strengthens the negative relationship between a firm's domestic footprint and ACD. This hypothesis is also supported, since the coefficient of the interaction between a firm's domestic footprint and domestic policy uncertainty is significantly negative in both models ( $p < 0.05$ ). Figure 1 displays how a firm's domestic footprint is related to ACD at relatively low and relatively high levels of domestic policy uncertainty, i.e. at uncertainty levels one standard deviation below and above the sample mean, respectively. Consistent with our hypothesis, the figure shows that a firm's domestic footprint is negatively related to ACD for both low and high levels of domestic policy uncertainty, but even more so for high levels.

Hypothesis 2b stated that domestic demand uncertainty weakens the negative relationship between a firm's domestic footprint and ACD. This hypothesis also receives support, as the interaction between a firm's domestic footprint and domestic demand uncertainty is significantly positive in both Model 4 and Model 5 ( $p < 0.05$ ). Figure 2 shows that the relationship between a firm's domestic footprint and ACD is indeed substantially less negative for levels of domestic demand uncertainty one standard deviation above its sample mean than for those one standard deviation below that mean.<sup>4</sup>

Table III shows the results of the second-stage OLS regressions that we ran to test the validity of our hypotheses for ALD and ARD. For both alternative dependent variables, we continue to find support for our hypotheses ( $p < 0.05$ ).<sup>5</sup>

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INSERT FIGURES 1 AND 2 ABOUT HERE  
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INSERT TABLE III ABOUT HERE  
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### **Additional analyses**

To assess the robustness of the above results, we performed several additional analyses.<sup>6</sup> First, we excluded U.S. firms from our first and second-stage samples, since such firms make up more than 40% of the observations in both samples. Second, we replaced our POLCONIII-based measure of domestic policy uncertainty by the standard deviation of a home country's relative political extraction (RPE) score over the previous five years. This RPE score reflects a domestic government's effectiveness in collecting taxes and using the proceeds to accomplish goals. Fluctuations in that effectiveness over time, as measured by the standard deviation of a country's annual RPE score, imply policy uncertainty for firms (Feng, 2001; Organski and Kugler, 1980). Third, we created market size-weighted measures of a firm's domestic footprint and the three forms of added distance. Specifically, we multiplied a firm's domestic footprint by the natural logarithm of domestic consumption and multiplied the cultural, linguistic, and religious distances to a country entered by the natural logarithm of the country's consumption level. The data source for countries' annual consumption levels was Euromonitor's *Passport GMID* database. Finally, we used the same source to gather data on the annual domestic market share of our sample firms and used that share as an alternative weight in the measure of a firm's domestic footprint. Since the data on these shares were only available as of 2003, our first-stage sample was reduced to 618 observations and our second-stage sample to 157 observations. As summarized in Table IV, the regression results for all of these subsample analyses and alternative measurement approaches also yield substantial support for our hypotheses.<sup>7</sup>

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INSERT TABLE IV ABOUT HERE  
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## **DISCUSSION AND CONCLUSION**

### **Contributions and Implications**

It is well known that the value-adding activities of most large firms are regionally concentrated rather than globally spread (Rugman and Verbeke, 2004, 2007; Verbeke and Asmussen, 2016). Less well known is that the concentration of firms' activities in their home region is explained to a large extent by their sizeable domestic footprint (Asmussen, 2009; Oh and Rugman, 2014; Osegowitsch and Sammartino, 2008). Perhaps because of scholars' unawareness of this fact, the role of a firm's domestic footprint in its internationalization strategy has not been studied previously. To uncover that role, we examined the relationship between a firm's domestic footprint and its annual decisions on ACD, and how this relationship is moderated by domestic environmental uncertainties. Our finding that firms tend to add less cultural distance to their sales market portfolio when they have a larger domestic sales footprint indicates that the geographic focus of a firm's downstream activities plays a key role in its cross-cultural expansion strategy. Furthermore, by showing that the impact of a firm's domestic footprint on ACD critically depends on domestic environmental uncertainties, we contribute to the growing body of IM research on the role of home-country uncertainties (Tallman, 1988; Lee and Makhija, 2009; Holburn and Zelner, 2010; Sahaym, Trevino and Steensma, 2012; Tan and Chintakananda, 2016). Specifically, the opposing moderating effects of domestic policy uncertainty and domestic demand uncertainty make clear that, when considered in combination with a firm's domestic footprint, not all domestic uncertainties shape its internationalization in the same way. Domestic policy uncertainty, on the one hand, seems to encourage firms with a larger domestic footprint to 'fight' more for their domestic market because such partly endogenous uncertainty seems to induce them to allocate even more headquarters attention domestically, causing them to add even less cultural distance to their country portfolio. Domestic demand uncertainty, on the other hand, seems to trigger a 'flight' response from them because such generally exogenous uncertainty seems to

stimulate the allocation of headquarters attention to international expansions, causing a firm's domestic footprint to constrain the addition of cultural distance to a lesser extent.

Our finding that a firm's domestic footprint has a negative relationship with ACD and that this relationship is moderated by domestic environmental uncertainties provides support for our theoretical framework, which uniquely combines insights from RDT and the ABV. Specifically, a firm's dependence on domestic resources and environmental uncertainties about the provision of these resources seem to jointly determine the distribution of headquarters attention between strategizing for the domestic market and strategizing about foreign expansions and, thereby, the ACD characterizing foreign expansion strategies. These insights suggest that domestic resource dependencies, and the managerial attention they require, have noteworthy consequences for internationalization strategies and should therefore be given greater consideration in IM research (cf. Xia, Ma, Lu and Yiu, 2014). Our finding that a firm's domestic footprint negatively affects ACD but not the likelihood of international expansion suggests that domestic resource dependence does not keep firms from expanding internationally per se, but rather leads them to opt for expansion strategies that are culturally more conservative. More specifically, our results suggest that headquarters executives tailor the content of their foreign expansion plans to the attention they can allocate to shaping these plans. Indirectly, our study thus also sheds some light on the process of international strategy formulation, which so far largely remains a black box (Maitland and Sammartino, 2015).

Overall, our findings suggest that ACDs reflect senior managers' desire to avoid ineffective foreign expansions and, hence, that ACDs are self-selected. This insight has important implications for the stream of IM research on the performance effects of ACD and other forms of cross-national distance. Studies within that stream have explored how the performance of multinational firms as a whole is affected by ACD (Hutzschenreuter and Voll, 2008) and how the performance of individual foreign investments such as acquisitions and joint ventures is affected by the destination country's cultural distance (for reviews, see Stahl and Voight, 2008; Tihanyi, Griffith and Russell, 2005) as well as its regulatory and economic distance (e.g., Gaur and Lu, 2007; Tsang and Yip, 2007). A substantial portion of these studies found that distance has negative performance effects. However, they did not control or correct empirically for the possibility that firms purposively select the cross-national

distance associated with foreign expansion so as to avoid poor performance, a possibility for which we find supporting evidence. Consequently, they may have obtained biased estimates of the performance effects of distance, in that they might have obtained no distance effect at all had they empirically incorporated our insight that firms self-select the distance associated with foreign expansion (cf. Shaver, 1998). To rule out the possible presence of biases caused by distance self-selection, future studies of the performance consequences of distance are recommended to implement Heckman's (1979) two-stage procedure. This procedure involves first regressing the distances observed in a sample on their likely strategic determinants to generate a correction term for distance self-selection, and then entering this correction term in the regression model used for estimating the performance effect of distance. The use of this procedure may shed new light on the performance effects of various types of cross-national distances.

Finally, our study contributes to the measurement of added distances in the sphere of culture by complementing Hutzschenreuter and colleagues' Hofstede-based ACD measure with novel measures of ALD and ARD. Our finding that our hypotheses also hold for the latter two measures adds to the internal validity of our study, and shows the promise of moving from a singular to a multifaceted measurement approach towards added distance.

### **Limitations and Research Suggestions**

Several caveats apply to our work. First, as in several prior studies (e.g., Chan, Finnegan and Sternquist, 2011; Dawson, 2007), Deloitte's *Global Powers of Retailing* reports were an important source of data for our study, even though we could not verify the reliability of these data for all of our observations. However, since we identified only some minor inconsistencies in the cases where we could verify the Deloitte data in firms' annual reports, we believe these data to be sufficiently reliable.

Second, owing to data restrictions, we only explored the moderating effects of uncertainties about resource provisions by domestic government branches and domestic customers. However, firms may also be dependent on other domestic actors such as alliance partners, and the provision of resources by those actors may also be characterized by uncertainties (Drees and Heugens, 2013; Pfeffer and Salancik, 1978). Such uncertainties may also influence how strongly a firm's domestic

footprint curbs its cross-cultural expansion leaps. Moreover, firms in general and retailers in particular are often also dependent on foreign suppliers and other foreign actors, and the uncertainties associated with the provision of resources by such actors may also influence a firm's internationalization strategy (Connelly, Ketchen and Hult, 2013). Future studies may attempt to shed light on these possibilities.

Third, we tested our hypotheses on a sample of retailers, which predominantly internationalize to seek new markets. Although this enabled us to keep constant the motive for internationalization, the downside is that we do not know whether our results are generalizable to Dunning's (1998) other internationalization motives. When the aim of a foreign expansion is to gain access to natural resources, for instance, firms with a larger domestic footprint may allocate more rather than less headquarters attention to that expansion, since they may have a stronger desire to secure access to the resources as a way of protecting their domestic sales empire. Moreover, our sample firms had an average operating history of over 50 years and an average domestic footprint of 0.75, suggesting that they have long been focused mainly on their home market. International new ventures (INVs), on the other hand, are internationally oriented from the outset and therefore usually have a substantially lower domestic footprint (Oviatt and McDougall, 1994; Knight and Cavusgil, 2004; Prashantham & Dhanaraj, 2010). The domestic footprint of such ventures may therefore show a different relationship with ACD. Future studies could explore these possibilities by analyzing other samples of firms.

Consistent with our focus on market-seeking firms, we focused on the domestic footprint of firms in terms of their sales. A firm's domestic sales footprint mainly captures the domestic concentration of a firm's downstream activities and not so much that of its upstream activities, whose domestic concentration is better accounted for in a firm's domestic asset footprint (Rugman and Verbeke, 2004). Although the average domestic asset footprint has been found to be similar to the average domestic sales footprint (Hejazi, 2007; Oh and Rugman, 2014), the two types of footprints may channel headquarters executives' attention to the domestic market to different degrees, and may therefore exert differential limiting effects on ACD. Future studies could explore this possibility.

We also encourage scholars to extend the scope of our analyses to other forms of added distance (cf. Hutzschenreuter, Kleindienst and Lange, 2014) and to other aspects of

internationalization, such as the pace with which firms expand (Gao and Pan, 2010) and their choice of expansion mode (Slangen, 2011). Such extensions would contribute to the development of a more holistic view of the role of a firm's domestic footprint in its internationalization strategy.

## NOTES

<sup>1</sup> Moreover, decisions on the use of these ‘push’ measures are unlikely to require the attention of headquarters executives, since such marketing decisions are usually at the discretion of lower-level managers (Aylmer, 1970; Picard, Boddewyn and Grosse, 1998). The same applies to analyses of the growth potential of an uncertain domestic market. Such analyses are usually carried out by the domestic management team rather than by corporate-level executives (Alfoldi, Clegg and McGaughey, 2012; Schilit, 1987).

<sup>2</sup> For 14.9% of the observations, the ACD score equals the cultural distance from the entrant’s home country. These observations represent first foreign expansions by firms into single countries.

<sup>3</sup> We did not use data from the GLOBE study because these data were only available for about half of the sample of international expansions.

<sup>4</sup> As suggested by an anonymous reviewer, we also explored the existence of non-linear direct and moderating effects of domestic demand uncertainty. We did not find empirical support for such effects.

<sup>5</sup> For all three dependent variables, we also explored the existence of a three-way interaction between a firm’s domestic footprint and the two domestic uncertainties. We did not find empirical support for such an interaction.

<sup>6</sup> The detailed results of these analyses are available from us upon request.

<sup>7</sup> Besides using the size of the domestic market and a firm’s domestic market share as weights in the measurement of a firm’s domestic footprint, we also explored whether the first two variables moderated the effect of a firm’s (unweighted) domestic footprint. We found that they did not, indicating that the negative effect of a firm’s domestic footprint on ACD does not vary with the size of the domestic market or with a firm’s domestic market share. We obtained similar results when we used ALD and ARD as dependent variables.

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## APPENDIX

### First-stage probit regression of the likelihood of international expansion

Independent variables	Coefficients
Firm's domestic footprint	-0.26 (.16)
Firm's domestic footprint x Domestic policy uncertainty	-0.01 (.11)
Firm's domestic footprint x Domestic demand uncertainty	0.13 (.09)
Domestic policy uncertainty	0.01 (.15)
Domestic demand uncertainty	0.00 (.10)
Firm's multinational diversity	0.91 (.17)***
Firm's product diversity	0.25 (.17)
Firm's total foreign sales	0.09 (.11)
Country exits by firm	0.03 (.09)
Firm is large franchisor	0.02 (.13)
Firm has a reputable brand	0.37 (.17)*
Firm is grocery retailer	-0.84 (.24)***
Firm is U.S. retailer	-0.64 (.37)†
Firm's age	-0.30 (.17)†
Firm's profitability	0.01 (.08)
Domestic market size	-1.07 (.33)**
Domestic market growth	-0.22 (.10)*
Domestic rule of law	0.03 (.18)
Domestic peer competition	1.48 (.41)***
Number of observations	1,095
Number of firms	218
Number of home countries	26
Log likelihood	-332.9
Wald $\chi^2$	82.6***

Intercept included but not shown; robust standard errors in parentheses; †  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$  (two-tailed)

**Table 1: Descriptive statistics and correlations**

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. ACD	0.59	0.80																	
2. ALD	0.54	0.62	0.74																
3. ARD	0.20	0.24	0.70	0.81															
4. Firm's domestic footprint	0.75	0.27	-0.17	-0.28	-0.28														
5. Domestic policy uncertainty	-0.43	0.08	0.06	0.02	0.03	-0.17													
6. Domestic demand uncertainty	0.77	0.80	0.04	0.17	0.12	-0.18	0.04												
7. Firm's multinational diversity	12.2	12.0	0.13	0.45	0.35	-0.40	-0.09	0.21											
8. Firm's product diversity	2.65	2.05	-0.02	-0.02	-0.02	-0.08	0.40	0.18	0.08										
9. Firm's total foreign sales	4626	8734	0.04	-0.07	-0.07	-0.05	0.02	-0.04	0.08	0.32									
10. Country exits by firm	0.26	0.98	0.00	0.09	-0.02	-0.15	-0.05	0.14	0.17	-0.02	0.05								
11. Firm is large franchisor	0.08	0.27	0.13	0.10	0.09	-0.30	0.02	0.04	0.11	0.11	0.10	0.09							
12. Firm has a reputable brand	0.48	0.50	-0.02	0.04	0.02	0.18	-0.23	0.02	0.22	0.08	0.30	0.06	0.13						
13. Firm is grocery retailer	0.24	0.43	-0.09	-0.12	-0.09	-0.11	0.45	0.12	-0.01	0.70	0.46	-0.02	0.21	0.14					
14. Firm is U.S. retailer	0.41	0.49	-0.18	-0.36	-0.26	0.42	-0.30	-0.57	-0.30	-0.46	0.06	-0.18	-0.15	0.11	-0.27				
15. Domestic market size	13.5	1.18	-0.16	-0.25	-0.18	0.45	-0.41	-0.47	-0.20	-0.50	0.07	-0.09	-0.10	0.15	-0.42	0.52			
16. Domestic market growth	0.06	0.06	0.08	0.12	0.05	-0.17	-0.04	0.21	0.10	0.01	-0.03	0.23	-0.02	-0.01	-0.02	-0.23	-0.29		
17. Domestic rule of law	1.50	0.26	-0.07	-0.02	0.02	0.14	0.00	0.15	-0.00	-0.03	0.06	0.05	-0.33	0.06	0.07	0.08	0.04	-0.02	
18. Domestic peer competition	70.6	36.1	-0.17	-0.31	-0.24	0.42	-0.40	-0.51	-0.25	-0.52	0.08	-0.12	-0.14	0.16	-0.36	0.52	0.57	-0.21	0.12
19. Host-country market size	11.2	1.50	0.27	0.35	0.35	-0.12	-0.04	0.19	0.21	0.06	0.03	-0.00	0.01	-0.02	-0.02	-0.13	-0.04	0.08	0.02
20. Host-country market growth	0.53	0.80	0.19	0.29	0.23	-0.12	-0.00	0.18	0.20	-0.08	-0.09	0.09	-0.07	-0.06	-0.12	-0.14	-0.09	0.21	0.12
21. Host-country rule of law	0.04	0.07	0.04	0.07	0.03	0.02	0.01	-0.06	-0.09	-0.10	-0.09	-0.05	-0.05	-0.12	-0.11	0.15	0.16	0.03	0.05
22. Inverse Mills ratio	1.21	0.98	-0.14	-0.36	-0.31	0.46	0.31	-0.14	-0.39	0.03	-0.13	-0.22	-0.16	-0.33	0.25	0.12	0.05	-0.07	-0.10
			<b>18</b>	<b>19</b>	<b>20</b>	<b>21</b>													
19. Host-country market size			-0.09																
20. Host-country market growth			-0.09	0.56															
21. Host-country rule of law			0.16	0.48	0.20														
22. Inverse Mills ratio			0.02	-0.16	-0.18	0.05													

Correlations greater than |0.12| are significant at  $p < 0.05$ , while those greater than |0.16| are significant at  $p < 0.01$

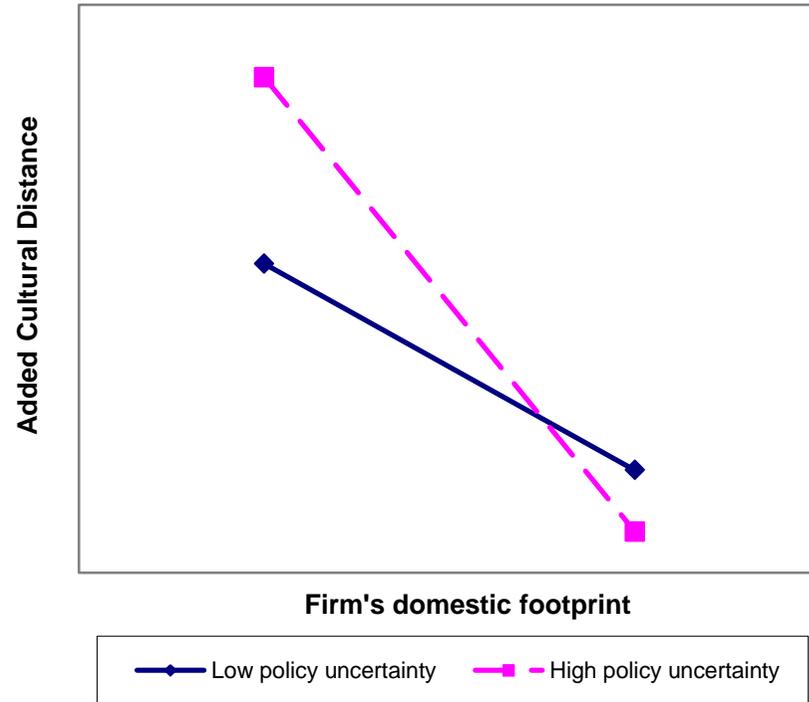
**Table II: Second-stage OLS regression analyses of ACD**

Independent variables	Model 1	Model 2	Model 3	Model 4	Model 5
Firm's domestic footprint (H1)	-	-0.30 (.09)**	-0.32 (.09)**	-0.29 (.09)**	-0.29 (.09)**
Firm's domestic footprint x Domestic policy uncertainty (H2a)	-	-	-0.12 (.06)*	-	-0.13 (.06)*
Firm's domestic footprint x Domestic demand uncertainty (H2b)	-	-	-	0.16 (.07)*	0.16 (.07)*
Domestic policy uncertainty	0.24 (.10)*	0.19 (.10)†	0.05 (.12)	0.19 (.20)	0.05 (.12)
Domestic demand uncertainty	0.07 (.04)†	0.06 (.04)	0.06 (.04)	0.06 (.04)	0.06 (.04)
Firm's multinational diversity	0.07 (.10)	0.08 (.10)	0.08 (.09)	0.04 (.10)	0.04 (.10)
Firm's product diversity	-0.04 (.11)	-0.07 (.11)	-0.07 (.11)	-0.07 (.11)	-0.07 (.11)
Firm's total foreign sales	0.08 (.07)	0.06 (.07)	0.06 (.07)	0.07 (.07)	0.07 (.07)
Country exits by firm	0.02 (.03)	-0.01 (.03)	-0.01 (.03)	0.00 (.03)	-0.00 (.03)
Firm is large franchisor	0.23 (.07)**	0.20 (.07)**	0.22 (.08)**	0.20 (.07)**	0.22 (.07)**
Firm has a reputable brand	-0.03 (.12)	-0.09 (.12)	-0.09 (.12)	-0.07 (.12)	-0.08 (.12)
Firm is grocery retailer	-0.51 (.21)*	-0.27 (.22)	-0.29 (.23)	-0.31 (.22)	-0.34 (.22)
Firm is U.S. retailer	0.10 (.24)	0.06 (.24)	0.08 (.25)	0.01 (.24)	0.08 (.25)
Domestic market size	-0.50 (.26)†	-0.11 (.28)	-0.06 (.28)	-0.09 (.27)	-0.02 (.28)
Domestic market growth	0.02 (.05)	0.06 (.05)	0.06 (.05)	0.05 (.05)	0.05 (.05)
Domestic rule of law	0.07 (.15)	0.06 (.14)	0.02 (.15)	0.05 (.14)	0.01 (.14)
Domestic peer competition	0.01 (.26)	-0.33 (.27)	-0.24 (.27)	-0.26 (.27)	-0.15 (.28)
Host-country market size	0.11 (.03)**	0.11 (.03)***	0.11 (.03)***	0.12 (.03)***	0.11 (.03)***
Host-country market growth	0.02 (.03)	0.03 (.03)	0.02 (.03)	0.03 (.03)	0.02 (.03)
Host-country rule of law	-0.02 (.02)	-0.02 (.02)	-0.02 (.02)	-0.02 (.02)	-0.02 (.02)
Inverse Mills ratio	-0.04 (.15)	-0.43 (.18)*	-0.38 (.18)*	-0.37 (.18)*	-0.30 (.18)
Number of observations	249	249	249	249	249
Number of firms	97	97	97	97	97
Number of home countries	17	17	17	17	17
R <sup>2</sup>	0.19	0.26	0.29	0.29	0.30
Wald $\chi^2$	58.4***	75.3***	80.5***	80.8***	83.0***

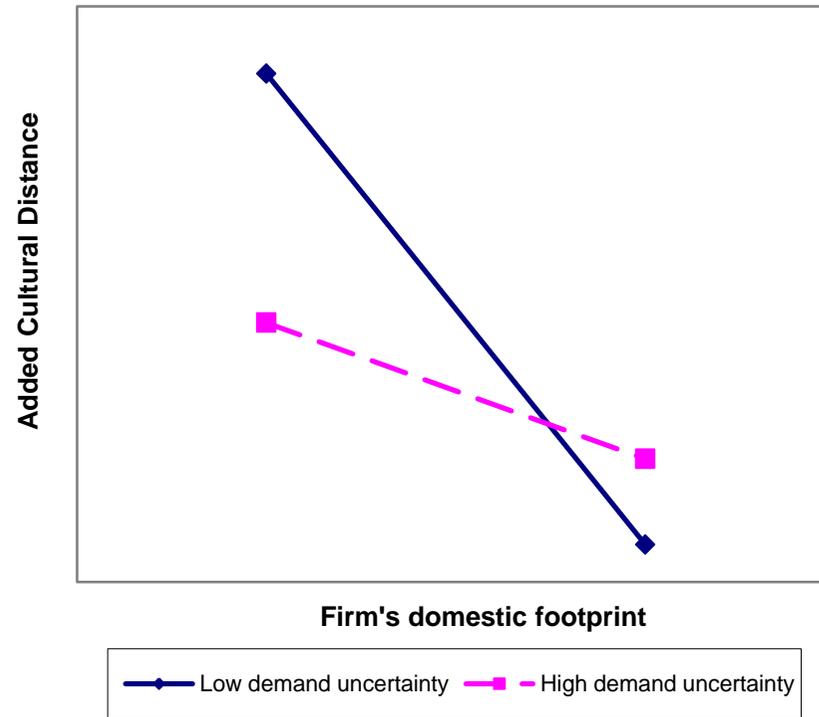
Intercept included but not shown; robust standard errors in parentheses;

† p < 0.1, \* p < 0.05, \*\* p < 0.01, \*\*\* p < 0.001 (two-tailed)

**Figure 1: Effect of a firm's domestic footprint on ACD at low and high levels of domestic policy uncertainty**



**Figure 2: Effect of a firm's domestic footprint on ACD at low and high levels of domestic demand uncertainty**



**Table III: Second-stage OLS regression analyses of ALD and ARD**

Independent variables	Model 2		Model 3		Model 4		Model 5	
	ALD	ARD	ALD	ARD	ALD	ARD	ALD	ARD
Firm's domestic footprint (H1)	-0.15 (.07)*	-0.09 (.03)**	-0.15 (.07)*	-0.09 (.03)**	-0.16 (.07)*	-0.09 (.03)**	-0.16 (.07)*	-0.09 (.03)**
Firm's domestic footprint x Domestic policy uncertainty (H2a)	-	-	-0.06 (.04)*	-0.02 (.01)*	-	-	-0.06 (.04)*	-0.03 (.02)*
Firm's domestic footprint x Domestic demand uncertainty (H2b)	-	-	-	-	0.03 (.02)*	0.02 (.01)*	0.03 (.02)*	0.02 (.01)*
Domestic policy uncertainty	0.15 (.06)*	0.07 (.02)*	0.13 (.07)†	0.07 (.03)*	0.14 (.06)*	0.07 (.03)*	0.12 (.07)*	0.07 (.03)*
Domestic demand uncertainty	0.07 (.03)*	0.02 (.01)†	0.08 (.04)*	0.02 (.01) †	0.07 (.04)*	0.02 (.02)	0.08 (.04)*	0.02 (.02)
Firm's multinational diversity	0.05 (.05)	0.01 (.02)	0.05 (.05)	0.01 (.03)	0.05 (.06)	0.01 (.02)	0.05 (.06)	0.01 (.03)
Firm's product diversity	-0.14 (.07)*	-0.04 (.03)	-0.14 (.07)†	-0.04 (.03)	-0.14 (.07)†	-0.04 (.03)	-0.14 (.07)†	-0.04 (.03)
Firm's total foreign sales	-0.00 (.03)	-0.01 (.02)	-0.00 (.03)	-0.01 (.02)	0.00 (.03)	-0.01 (.02)	0.00 (.03)	-0.01 (.02)
Country exits by firm	-0.00 (.03)	-0.01 (.01)	-0.00 (.03)	-0.01 (.01)	0.00 (.03)	-0.01 (.01)	-0.00 (.03)	-0.01 (.01)
Firm is large franchisor	0.05 (.03)	0.03 (.02)*	0.05 (.03)	0.03 (.02)*	0.06 (.03)†	0.03 (.01)*	0.05 (.03)	0.03 (.02)*
Firm has a reputable brand	0.05 (.05)	0.01 (.02)	0.04 (.05)	0.01 (.02)	0.05 (.05)	0.01 (.02)	0.04 (.05)	0.01 (.02)
Firm is grocery retailer	-0.12 (.12)	-0.05 (.05)	0.12 (.12)	-0.05 (.05)	-0.13 (.12)	-0.05 (.05)	0.03 (.10)	-0.06 (.05)
Firm is U.S. retailer	-0.24 (.15)	-0.06 (.07)	-0.24 (.15)	-0.07 (.07)	-0.27 (.16)†	-0.07 (.07)	-0.13 (.12)	-0.07 (.07)
Domestic market size	-0.07 (.15)	-0.01 (.07)	-0.07 (.15)	-0.01 (.07)	-0.07 (.15)	-0.01 (.07)	-0.07 (.15)	0.01 (.07)
Domestic market growth	-0.02 (.04)	-0.02 (.02)	-0.01 (.03)	-0.02 (.02)	-0.02 (.04)	-0.01 (.01)	-0.02 (.04)	-0.02 (.02)
Domestic rule of law	0.09 (.08)	0.06 (.04)†	0.09 (.08)	0.06 (.04)†	0.10 (.08)	0.07 (.04)†	0.09 (.08)	0.06 (.04)†
Domestic peer competition	-0.06 (.22)	-0.03 (.09)	-0.06 (.22)	-0.03 (.09)	-0.04 (.22)	-0.03 (.09)	-0.03 (.22)	-0.02 (.09)
Host-country market size	0.10 (.03)**	0.06 (.01)***	0.10 (.03)**	0.06 (.01)***	0.10 (.03)**	0.06 (.01)***	0.10 (.03)**	0.06 (.01)***
Host-country market growth	0.01 (.03)	-0.01 (.01)	0.01 (.03)	-0.01 (.01)	0.01 (.03)	-0.01 (.01)	0.01 (.03)	-0.01 (.01)
Host-country rule of law	0.00 (.02)	-0.02 (.01)*	-0.00 (.02)	-0.02 (.01)*	-0.00 (.02)	-0.02 (.01)†	-0.00 (.02)	-0.02 (.01)†
Inverse Mills ratio	-0.08 (.12)	-0.03 (.05)	-0.08 (.12)	-0.03 (.05)	-0.06 (.12)	-0.02 (.05)	-0.06 (.12)	-0.02 (.05)
Number of observations	249	249	249	249	249	249	249	249
Number of firms	97	97	97	97	97	97	97	97
Number of home countries	17	17	17	17	17	17	17	17
R <sup>2</sup>	0.33	0.30	0.33	0.30	0.32	0.31	0.33	0.31
Wald $\chi^2$	95.8***	76.9***	99.0***	75.9***	95.7***	78.8***	98.8***	77.9***

Intercept included but not shown; robust standard errors in parentheses; † p < 0.1, \* p < 0.05, \*\* p < 0.01, \*\*\* p < 0.001 (two-tailed)

**Table IV: Summary reports of additional analyses**

		<b>ACD</b>	<b>ALD</b>	<b>ARD</b>
Excluding U.S. firms <sup>1</sup>	Hypothesis 1	Supported (p < 0.05)	Supported (p < 0.05)	Supported (p < 0.05)
	Hypothesis 2a	Supported (p < 0.05)	Marginally supported (p < 0.10)	Supported (p < 0.05)
	Hypothesis 2b	Supported (p < 0.05)	Supported (p < 0.05)	Marginally supported (p < 0.10)
Measuring domestic policy uncertainty by the standard deviation of a home country's RPE score	Hypothesis 1	Supported (p < 0.01)	Supported (p < 0.05)	Supported (p < 0.01)
	Hypothesis 2a	Supported (p < 0.05)	Supported (p < 0.05)	Supported (p < 0.05)
	Hypothesis 2b	Supported (p < 0.05)	Marginally supported (p < 0.10)	Supported (p < 0.05)
Using market size-weighted measures of ACD, ALD, ARD, and a firm's domestic footprint	Hypothesis 1	Supported (p < 0.01)	Supported (p < 0.05)	Supported (p < 0.01)
	Hypothesis 2a	Supported (p < 0.05)	Supported (p < 0.05)	Supported (p < 0.05)
	Hypothesis 2b	Supported (p < 0.05)	Supported (p < 0.05)	Supported (p < 0.05)
Using a firm's domestic market share as a weight in the measure of a firm's domestic footprint <sup>2</sup>	Hypothesis 1	Supported (p < 0.01)	Supported (p < 0.05)	Supported (p < 0.05)
	Hypothesis 2a	Supported (p < 0.05)	Marginally supported (p < 0.10)	Supported (p < 0.05)
	Hypothesis 2b	Supported (p < 0.001)	Supported (p < 0.05)	Supported (p < 0.05)

<sup>1</sup> 598 observations remaining for stage 1 and 148 for stage 2; <sup>2</sup> 618 observations remaining for stage 1 and 157 for stage 2. For those analyses where the level of support for hypotheses 2a and 2b depended on whether the interaction terms were included separately or together, the most conservative level of support is reported.