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MESTRADO EXECUTIVO EM GESTÃO EMPRESARIAL

WINNING TOMORROW TODAY? ENTRY MODE MECHANISMS IN NASCENT VERSUS NON-NASCENT INDUSTRIES: *INVESTIGATING ESPORTS AND SPORTS DEALS*

DISSERTAÇÃO APRESENTADA À ESCOLA BRASILEIRA DE ADMINISTRAÇÃO PÚBLICA E DE EMPRESAS PARA OBTENÇÃO DO GRAU DE MESTRE

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Rio de Janeiro – 2020

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Master's thesis presented to Master in Management program, Escola Brasileira de Administração Pública, Fundação Getulio Vargas, as a requirement for obtaining the title of Master in Management.

Advisor: Professor Dr. Olivier Nicolas Bertrand

Rio de Janeiro
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Resumo

Título: Vencendo amanhã hoje? Mecanismos de entrada em indústrias emergentes vs indústrias não-emergentes: Investigando eSports e acordos desportivos

Autor: Jan-Clemens Schwerdtfeger

Objetivo: Compreender os mecanismos de decisão sobre modo de entrada mantém-se um enigma dada a escassa literatura na expansão de indústrias emergentes (IE) em contraste com indústrias consolidadas (IC). A entrada em IE acarreta desafios nomeadamente a oscilação entre crescimento exponencial e a enorme incerteza na decisão sobre o formato de governança. A atual literatura falha no fornecimento de potenciais consequências das decisões afetas ao modo de entrada.

Metodologia: Aborda-se essa lacuna investigando como as escolhas do modo de entrada das empresas (entre aquisições e alianças não patrimoniais) difere entre IE e IC. Este estudo foca-se no negócio de eSports como contexto empírico, contrastando o mesmo com a tradicional indústria do desporto. Combinando duas bases de dados de negócios com um processo manual de recolha de dados, obteve-se uma amostra de 520 negócios de eSports e desporto, entre 2015 e 2020.

Resultados: Através de regressão logística, torna-se evidente que a entrada em IE tem um impacto negativo significativo na probabilidade de aquisição. Vice-versa, as empresas optam frequentemente por alianças não patrimoniais, nesses novos contextos. O efeito negativo cresce aquando da moderação do relacionamento comprador-alvo e do nível de diversificação.

Aplicabilidade do trabalho: Os resultados evidenciam que os mecanismos de entrada diferem nas IE, aumentando a probabilidade de escolha de uma aliança não patrimonial como forma de governança. O estudo identifica o aumento do risco e a necessidade escassa de recursos e capacidades emergentes por parte dos adquirentes como potenciais razões. Sumariamente, este estudo alerta sobre a necessidade de investigação adicional em IE, sob uma perspetiva estratégica.

Palavras-chave: Indústrias Emergentes, Modos de Entrada, eSports, Diversificação Corporativa, Alianças não Patrimoniais, Aquisições

Categoria do artigo: Estratégia

Abstract

Title: Winning tomorrow today? Entry mode mechanisms in nascent versus non-nascent industries: Investigating eSports and Sports deals

Author: Jan-Clemens Schwerdtfeger

Purpose: Grasping all mechanisms of entry mode decisions remains a puzzle to strategists. Although well researched in established industries and cross-border settings, literature exploring nascent industry expansion remains scarce. Entering such emerging industries bears particular challenges to managers as they juggle between exponential growth and enormous uncertainty in their governance choice formulation. While gaining great importance, literature fails to provide clear evidence on potential implications on entry mode decisions.

Design/methodology/approach: This study addresses this gap. Precisely, it investigates how firms' entry mode choices (among acquisitions and non-equity alliances) differ between nascent and non-nascent industries. To test this phenomenon, this study chooses the eSports business as empirical context, fulfilling numerous characteristics of emerging industries, and contrasts it to traditional sports as established counterpart. Combining two leading deal databases with manual data collection, this paper builds a dataset of 520 eSports and sports deals between 2015 and 2020.

Findings: By running logistic regression, it becomes evident that entering nascent industries has a significant negative effect on acquisition probability. Vice versa, firms choose non-equity alliances more frequently in such novel contexts. The negative effect increases further when moderating the relationship with acquirer-target relatedness and diversification level.

Practical Implications: The results provide rich evidence that entry mode mechanisms differ in the presence of nascent industries, incrementing the likelihood of choosing non-equity alliances as governance. Among others, this paper identifies increased uncertainty and acquirers' limited need for nascent resources and capabilities as potential reasons. Overall, this paper calls for additional research on nascent industries from a strategy perspective.

Keywords: Nascent Industries, Entry Modes, eSports, Corporate Diversification, Non-equity Alliances, Acquisitions, Strategy

Category: Strategy

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Dissertação apresentado(a) ao Curso de MESTRADO PROFISSIONAL EXECUTIVO EM GESTÃO EMPRESARIAL do(a) ESCOLA BRASILEIRA DE ADMINISTRAÇÃO PÚBLICA E DE EMPRESAS para obtenção do grau de MESTRE em ADMINISTRAÇÃO.

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Preface

The copyright of the master dissertation rests with the author. The author is responsible for its contents. FGV/EBAPE is only responsible for the educational coaching and cannot be held liable for the content.

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List of Abbreviations

M&A	Mergers and Acquisitions
MNE	Multinational Enterprise
OLS	Ordinary Least Squares
R&D	Research and Development
SDC	Securities Data Company
TR	Thomson Reuters
USD	U.S. Dollars
VRIN	Valuable, Rare, Inimitable, and Non-Substitutable Resources

1. Introduction

"On October 19, 1972, two dozen students gathered at Stanford University's Artificial Intelligence Laboratory to do battle among the stars. They piloted ships through a speck-filled void, shooting missiles and dancing against gravity in one of the world's first video games, Spacewar. First prize was a year's subscription to Rolling Stone magazine." (Li, 2016)

On October 1, 2018, two dozen professional teams from all over the world gathered in numerous cities across South Korea for the eighth League of Legends world finals. They piloted champions through the lanes of 'Summoner's Rift', teamworking their way to the top of the tournament. Broadcasted in 19 different languages, unique viewership of the event reached 100 million across the globe, surpassing figures of sporting events such as the Super Bowl. Total prize pools of the eSports event accumulated to more than 6 million USD (Goslin, 2018; Tewari, 2018).

1.1. Topic Presentation

Comparing the early beginnings of eSports, almost 50 years ago, to its current state, it becomes apparent that the activity has developed from a small, 'nerdy' niche to a globally recognized trend. eSports, consisting of 'electronics' and 'sports', is an umbrella term for competitive video gaming (Freeman & Wohin, 2017). Particularly in recent years, video games have gained massive popularity, as, e.g., 2.2 billion active gamers in 2020 outweigh the largest sports in the world, football (soccer), by 8:1 (Kunz, 2007; Scholz, 2019). As a result of the incremental player base, the best gamers started to compete digitally and globally against each other, and professional eSports gained traction. Similar to a football world cup, global tournaments are organized, and spectators from around the world (e.g., 385 million people in 2018) cheer for their favorite teams competing in a variety of video game titles (Schultz, 2019). Accordingly, economic activity thrives, as eSports turned into a billion-dollar industry in 2019 (Gough, 2019).

The recent upward climb of eSports exemplifies how new trends (often shaped by technological advancements) can evolve into stand-alone industries with market sizes in the billions (Christensen *et al.*, 2015). Yet, these innovative, uprising, emerging, new, novel industries (in this study referred to by the collective terms *'nascent industries'* and *'emerging industries'*) are not only characterized by profound, often exponential growth. They are also surrounded by high levels of associated ambiguity and uncertainty (Eggers & Moeen, 2018).

Managing the balancing act between the sizable financial growth and the associated uncertainty bears particular challenges to executives. In times of constantly changing environments, fast-paced technological innovation, and global hyper-connectedness, standing still is a setback. To remain competitive on the battlefield of tomorrow, especially larger corporations identify, embrace, and undergo a continuous diversification process as a key part of corporate strategy (Brouthers *et al.*, 1995). Yet, the unique characteristics of nascent industries complicate expansion decisions. Precisely, managers cannot always choose their preferred governance mode when expanding to such novel contexts (Santos & Eisenhardt, 2009). Potentially, theoretically proven mechanisms and existing managerial decision-making criteria turn invalid when investigating corporates' nascent industry expansion.

Even though emerging industries gain significant importance in today's global economy and subsequently, also in strategy research, literature fails to provide clear evidence on potential implications on entry mode decisions. By focusing on the two inorganic growth modes of acquisitions and non-equity alliances, it is the specific purpose of this thesis to find out if entry modes mechanisms vary between nascent industries and non-nascent industries. Also, this paper investigates if and to what extent acquisition-stimulating instruments remain valid in the presence of a nascent industry. Accordingly, this study examines the following research questions:

> *Research Question 1: Which entry mode do firms choose when expanding into nascent industries in comparison to non-nascent industries?*

> *Research Question 2: What are the contingent factors of the relationship between nascent industries and governance choice?*

As previously outlined, the empirical context of this study is the emerging eSports industry. In particular, this research compares deals of firms investing in eSports with its established industry counterpart, the traditional sports sector. As shown in Figure 1, eSports revenues grow exponentially and have surpassed the 1-billion-dollar mark in total industry revenues in 2019 (Gough, 2019). Endemic and non-endemic firms recognize and embrace this trend and enter the eSports business through different governance forms. For instance, Nike invests in sponsoring activities and co-branding (Byrne, 2019), logistics company DHL co-

hosts tournaments, and Amazon acquired twitch.tv, the largest streaming platform, for 970 million USD in 2014 (Weinberger, 2016).

Figure 1: eSports: Global revenue development in billion USD (Source: Gough, 2019)

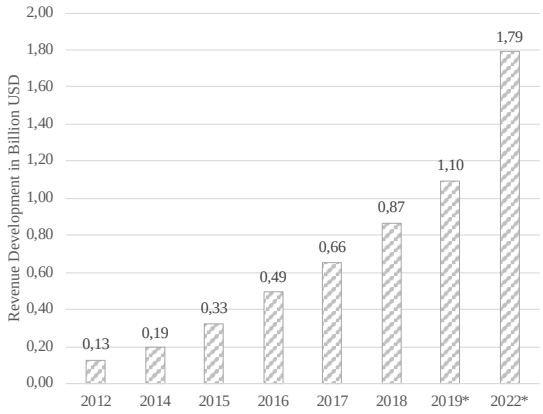
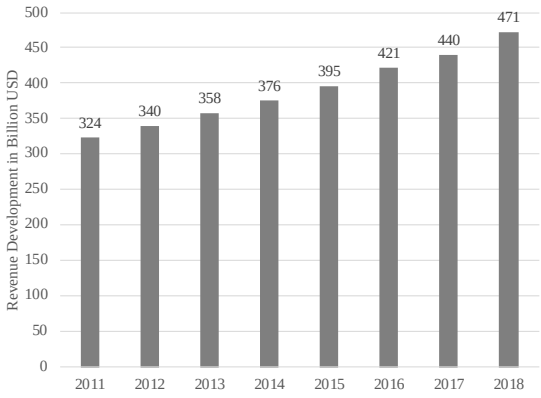


Figure 2: Sports: Global revenue development in billion USD (Source: O'Connell, 2020)



Its non-nascent counterpart, traditional sports, serves as a control group. Unlike eSports, the sports business is well-established, having initial traces thousands of years ago, and is highly monetized, as it serves as important form of entertainment in today's world (Carter, 2011). Figure 2 highlights that the global sports revenue is much larger than eSports, and that it increases, too, yet linearly (O'Connell, 2020).

Business entry by a large number of firms, exponential industry growth, and high levels of uncertainty underline that eSports fulfills numerous nascent industry criteria. In addition, it has the particular advantage of being similar to an established industry. Therefore, this empirical context allows a precise comparison between the mechanisms of nascent and non-nascent business entries.

1.2. Theoretical Relevance

The importance of corporate diversification is widely acknowledged and remains a key research field in strategy literature (Porter, 1987). Various studies illuminate the complex process of such diversification, including the influential drivers and effects on performance. Also, an extensive body of literature regarding the various governance structures and subsequent benefits and risks exists and has been tested in numerous contexts (e.g. Hennart & Reddy, 1997; Brouthers & Brouthers, 1999; Villalonga & McGahan, 2005; Lee & Liebermann, 2010). Strategy researchers highlight the particularities of cross-border diversification, and a

new line of literature discusses the differences when entering emerging markets (e.g. Ang *et al.*, 2014; Deng & Yang, 2015; Bertrand *et al.*, 2016; Lim & Lee, 2016). Surprisingly, the number of studies examining and applying such particularities on nascent industries remains scarce. Even though initial attempts to explain some of the phenomena surrounding emerging industries exist (Benner & Tripsas, 2011; Stettner & Lavie, 2014; York & Lenox, 2014; Moeen, 2017), there is a lack of studies investigating entry mode choice, concluding that *"our understanding of entry mode choice remains limited"* (Lee & Liebermann, 2010). The increased number of publications focusing on nascent industries e.g. in the *Strategic Management Journal* underline the growing importance of the nascent environment in strategy research (Moeen & Agarwal, 2016; Moeen, 2017; Eggers & Moeen, 2018).

Disrupting technologies and nascent industries are likely to continuously challenge incumbents in the future. Due to the balancing act between growth and uncertainty, it is questionable whether the existing and proven mechanisms, decision-making criteria, and core principles regarding entry mode choice remain valid when applied to this novel context. This dissertation seeks to provide substantial academic value by analyzing firms' choices between acquisitions and non-equity alliances in nascent and non-nascent industries. Following prominent researchers' findings, the boundaries of these decisions are tested, ultimately providing further insights to the limited body of nascent industry research. Additionally, this study explores an exciting novel empirical context that may serve as basis for other academic publications.

1.3. Managerial Relevance

In a Harvard Business Review article of 2003, Christensen and Raynor point out the lack of interest managers seem to put into understanding academic findings and theoretic concepts, as they either do not consider these at all or blindly assume that any result would apply to any context. This dissertation intends to eliminate this issue and build a bridge between academic knowledge and practical implication. Especially when entering a nascent industry, in which high degrees of uncertainties and various other particularities are involved, managers can arguably not rely on previously proven concepts, but must still decide about 'if', 'how' and 'when' to enter the landscape to capture value and sustain competitive advantage. Not answering these questions precisely may have tremendous consequences: For instance, Yahoo acquired social media platform Tumblr for 1.1 billion USD in 2013 and sold it at below 3 million USD six

years later, destroying over a billion dollars in value (Siegel, 2019). The Yahoo case exemplifies the involved demand uncertainty and subsequent inability of fair acquisition price assessments in emerging industries. Consequently, shareholders are generally suspicious of corporations' market entries. In the U.S., highly diversified companies are traded approximately 10% below the accumulated value of their stand-alone strategic business units (Ramachandran *et al.*, 2013).

It becomes evident that an entry mode decision is complex and that managers must choose on a case to case basis how entering new businesses adds most value and corporate advantage. Therefore, they also must choose carefully among various governance modes, all having benefits and disadvantages. Corporations may, among other motives, be incentivized to partake in the eSports and other nascent industries in the near future due to financial reasons and to access vital resources and capabilities: In terms of financial opportunities, Figure 1 shows the current market size and respective expected growth that is projected by various experts and industry reports (Gough 2019). Entering this new industry may potentially result in an access to a new target market. Also, corporations may find relevant resources and capabilities in nascent businesses that may provide substantial value: In the case of eSports, characteristics include, among others, a highly digital, innovative, and international structure, incentivizing traditional firms to enhance their skillsets in a modern direction (Scholz, 2019).

Therefore, this dissertation supports managers' decision-making process when a nascent market entry is debated in the future: Firstly, contrasting various entry modes in the light of nascent industries could potentially change managers' perceptions and guide future decisions. Secondly, this study provides specific recommendations and shows whether managers may want to adjust decision-making patterns when expanding into nascent industries. And thirdly, an examination of the eSports environment helps managers to understand the complexity and benefits surrounding nascent industries. Ultimately, this study suggests that entry mode decisions are complex and that managers are incentivized to choose among various governance structures on a case-to-case basis.

1.4. Outline

This dissertation moves on in the following way: The next chapter contains a literature survey and explores a diverse set of academic contributions related to corporate strategy, entry mode mechanisms, and nascent industries. Three hypotheses (or "orienting propositions") are

introduced accordingly. The subsequent method section presents a logistic regression model and explains and proposes various variables derived from prominent entry mode literature as controls. The following chapter of this dissertation exhibits the findings before discussing them and posing managerial implications afterward. This thesis concludes with the limitations of this work and a call for future strategy research in nascent industries.

2. Theory Review

Firstly, this theory review summarizes the core concepts of corporate strategy to highlight the relevance and complexity of an entry mode choice. Secondly, it provides an introduction into the existing body of literature on nascent industries. Thirdly, this section contrasts various governance structures and applies them to such industries. Ultimately, this study finds mixed evidence on expected mechanisms, and thus develops three "orienting propositions", in this study framed as hypotheses, each competing, for further analysis (Bettis *et al.*, 2014).

2.1. Corporate Strategy

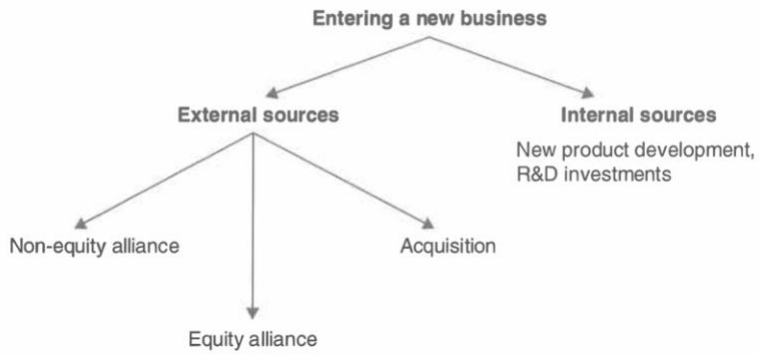
A well-executed strategy is considered to be one of the primary sources of a company's success. Scholars differentiate between business strategy and corporate strategy (Fombrun & Astley, 1983). Corporate strategy deals with two main functions: (1) The selection of domains in which corporations choose to compete in and (2) to what extent corporate headquarters should intervene with its strategic business units (Porter, 1987; Chandler, 1991; Collis & Montgomery, 1998). The underlying aim of both corporate functions is to create corporate rather than competitive advantage. Corporate advantage is achieved when the collection of businesses owned by an entity is performing better than if they were isolated (Puranam & Vaneste, 2016). This can only be achieved if synergies between businesses under one umbrella are present (Collis & Montgomery, 1998) and a strategic fit is given (Campbell *et al.*, 1995). Otherwise, firms would fail to achieve their arguably primary goal of maximizing shareholder value (Friedmann, 1962; Husted & de Jesus Salazar, 2006).

Consequently, managers are juggling between risks and benefits when engaging in corporate diversification decisions: On the one hand, there is an additional organizational effort to manage multiple businesses under one umbrella (Jaggi & Tsui, 1999). Also, poor diversification decisions lead to value destruction, as highly diversified companies and conglomerates are often traded at discounted rates on stock markets (Ramachandran *et al.*, 2013). On the other hand, neglecting diversification may result in poor performance, as corporations would put *'all eggs in one basket'* and not hedge profoundly against risks (Lubatkin & Chatterjee, 1991). Besides, firms benefit from size increases and may be able to exploit synergy gains, e.g., in the form of scope economies, when activities across divisions are related, and interfirm knowledge transfer (Mowery *et al.*, 1996; Johnson *et al.*, 2017). In line with the

resource-based view, diversification is also considered as a tool to outperform competitors and sustain competitive advantage by adding valuable, rare, inimitable, and non-substitutable (VRIN) resources and capabilities to the corporation (Wernerfelt, 1984; Barney, 1991; Mahoney & Pandian, 1992).

Even though there is an on-going debate about the effectiveness and relevance of strategy in terms of firm performance (Schmalensee, 1985; Rumelt, 1991; McGahan & Porter, 1997; Hawawini, Subramanian & Verdin, 2003; Vermeulen, 2013), it becomes evident that there are numerous motives for firms to engage in corporate strategy activities. This thesis focuses on the diversification activities of corporate strategy. When entering a new business, managers are left with various entry mode choices, as depicted in Figure 3.

Figure 3: Growth tree (Source: Puranam & Vaneste, 2016)



A firm can either grow into a business organically or inorganically. Starting with the organic path, internal development entails a corporation's option to grow itself, through its resources, into a business by R&D investments. Primary advantages of internal development are the reduced commitment of monetary resources and a higher level of ownership, leading to mitigation of risk (Lee & Liebermann, 2010) and is preferred by firms with substantial intangible resources and capabilities (Brouthers & Brouthers, 1999). If selecting the inorganic route, a firm must choose among a continuum of equity level, ranging from non-equity alliances, over equity alliances to full acquisitions (Puranam & Vaneste, 2016), which are further examined in section 2.3.

A manager's choice towards either one of these modes depends on a list of strategic considerations and viewpoints. Setting up the optimal governance structure is a time-consuming

process and not a straight-forward decision, mainly as internal (e.g. financial strength) and external factors (e.g. governmental regulations) may prevent achieving the preferred entrance mode (Bourgeois, 1980; Agarwal & Ramaswami, 1992; Koch, 2001). No 'one' single approach or framework for managers exists when considering an entry mode decision due to its complexity (Hill *et al.*, 1990; Lee & Liebermann, 2010). The success of a market entry is difficult to measure and only becomes visible after some time. Evidence suggests that strategic business unit success may depend on a matching governance mode selection (Madhok, 1997; Brouthers *et al.*, 2003; Sharma & Erramilli, 2004; Geyskens *et al.*, 2006).

Overall, various papers and extensive research throughout the last decades have contributed to a profound body of knowledge on entry mode choices in different settings. To build this comprehension, scholars contrast multiple structures in a single study (e.g., Villalonga & McGahan, 2005; Raff *et al.*, 2006; Stettner & Lavie, 2014) or compare the presence of two entry modes, e.g. organic versus inorganic market entries (e.g., Brouthers & Dikova, 2010; Lee & Liebermann, 2010) or non-equity alliances versus acquisitions (e.g., Garette & Dussauge, 2000; Dyer *et al.*, 2004, Wang & Zajac, 2007). An additional stream of literature focuses on extending the proven concepts to different contexts, such as cross-border (e.g., Hill *et al.*, 1990; Shane, 1994; Hennart & Reddy, 1997; Madhok, 1997; Brouthers & Brouthers, 2000; Raff *et al.*, 2006; Ang *et al.*, 2014) or cross-industry relationships (e.g., Villalonga & McGahan, 2005; Wang & Zajac, 2007; Lee & Liebermann, 2010) between acquirers and targets.

In line with these approaches, it is the purpose of this paper to test whether the observed principles and phenomena shift in the presence of a novel setting, or whether they remain valid. Precisely, this study seeks to understand whether observed patterns and existing knowledge remains valid in the frame of nascent industries, and to provide logics for potential predominant entry modes.

2.2. Nascent Industries

Also framed as "nascent markets" or "emerging industries", literature does not offer one singular and precise definition of nascent industries. To ensure an unambiguous distinction of the concept, this study provides an overview of characteristics that illuminate the term rather than a definition:

Firstly, nascent industries are at an early development stage when integrating them in the industry lifecycle framework:

Figure 4: Industry development over time (Source: Eggers & Moeen, 2018)

Even though revenue growth steepened, nascent industries are far before saturation level and may have an exponential increase ahead. As such, nascent industries are characterized by an immense, yet unpredictable growth potential (Eggers & Moeen, 2018).

Secondly, firms partaking in nascent industries often engage in the concept of coopetition for value creation. To be specific, firms cooperate and rely on each other to create value and enhance the overall market size of the nascent industry, while they compete with each other at the same time for a share of this value (Hannah, 2018). Various research streams explore the balance between cooperation and competition and the consequences of usage. Commonly, practicing coopetition results in the creation of ecosystems (groups of firms complementing each other through different solutions) and the convergence of participants (enhanced observable similarity between firms) (Hannah & Eisenhardt, 2017; Hannah, 2018).

Thirdly, from a resource and capability perspective, nascent industries have often emerged due to technological innovation. Consequently, firms from emerging contexts are disrupting incumbent market positions and forcing enterprises to react (Roy *et al.*, 2018). Focusing on innovative approaches, these companies often have technology-driven strategies

and structures in place and possess novel, valuable and rare resources and capabilities (Olleros, 1986; Yiu *et al.*, 2005; Gruber *et al.*, 2010).

Lastly, nascent industries are characterized by a high degree of associated ambiguity and uncertainty (Eggers & Moeen, 2018). From a demand side, it is difficult to assess the exact customer preferences, making it challenging to grasp the full market potential of a product (Benner & Tripsas, 2011). The overall industry may have to engage in legitimacy-building measures and must educate customers about their innovations (Wry *et al.*, 2011). From a supply-side, shifting industry boundaries, technological integration, and convergence of competitors (as described above) lead to an ambiguous competitive environment (Benner & Tripsas, 2011).

As indicated by Figure 4, nascent industries may have a robust exponential growth curve ahead, incentivizing corporations to invest (Mitchell, 1991; Eggers & Moeen, 2018). Particularly in recent times, these businesses emerge more frequently and are generally shaped by technological innovation, often disrupting incumbent market positions and forcing enterprises to act (Roy *et al.*, 2018). Nevertheless, the high level of uncertainty involved complicates the decision-making process in the presence of nascent industries and creates strategic trade-offs (Eggers & Moeen, 2018). Since some nascent industries are thus likely to fail to emerge, significant value destruction may take place if the industry was entered wrongly (Ramachandran *et al.*, 2013). As a consequence, scholars have identified nascent industries as an important research field, since previous strategy research findings may be invalid when applying them to nascent industries' contextual features (Lavie, 2006; Benner & Tripsas, 2011; Eggers & Moeen, 2018).

2.3. Market Entry in Nascent Industries

The contextual features described in the previous section underline the difficulties of good decision-making in nascent industries. These issues become particularly challenging when it comes to an entry mode decision. Due to the uncertainty examined, firms may not be able to choose their predominant governance structure, as it is e.g., problematic to evaluate acquisition prices, often leading to price premiums paid (Slangen & Hennart, 2007) and unwanted or outdated assets to spin-off due to higher substantial information asymmetry (Reuer & Koza, 2000). Benner and Tripsas (2011) highlight that *"we lack a more granular*

understanding of the many individual choices that entry comprises". While numerous studies illuminate the underlying mechanisms of a general market entry decision (e.g., Benner & Tripsas, 2011) and the 'perfect' timing of nascent industry entry (e.g., Mooen, 2017), limited empirical evidence exists on choosing an entry mode. The existing knowledge on entry modes was built by either investigating established industries or cross-border deals as empirical contexts, neglecting the nascent industry alternative.

This study seeks to fill this gap by investigating the corporate diversification decision of choosing between non-equity alliances and acquisitions when entering a nascent industry. Thus, in the following, the underlying mechanisms of choosing alliances versus acquisitions are presented based on the existing body of academic research. Subsequently, hypotheses are posed in order to assess whether the same principles hold in the presence of a nascent industry entry. Besides, two moderators and their impact on the relationship are proposed.

2.3.1. Non-Equity Alliances

Non-equity alliances are a type of governance structure in which no ownership is exchanged among the involved parties, as all firms remain own entities. Particularly in recent years, firms seem to recognize a shift in the competitive landscape and start to work with rather than against each other – with the aim of a mutual benefit (Culpan, 2009; Li *et al.*, 2010).

In non-equity alliances, at least two companies engage in a contractual partnership to create competitive advantage by exchanging some of their resources and capabilities with each other (Barney & Hesterley, 2006). Typical practices may include licensing agreements (e.g., Nestlé selling Starbucks products in retail locations (Atkins, 2018)) joint marketing (e.g., Epic Games incorporating Marvel characters (Valdes, 2019)), joint R&D (e.g., Volkswagen and Ford cooperating on electric and self-driving cars (Fasse & Menzel, 2019)) or shared manufacturing or distribution channels. There are various benefits and expected effects to strategically allying with a partner: From an organizational learning perspective, all involved firms enhance their umbrella of skillsets, resources, and capabilities (Eisenhardt & Schoonhoven, 1996). Often, partners complement each other and create synergies (as shown in the licensing example above). It is also noticeable that alliances foster innovation with a limited amount of resources when engaging in joint R&D (Lai & Chang, 2010). From an economic perspective, partners share the risk and costs, enhancing the likelihood of succeeding in a specific business. As no ownership transfer takes place, the overall risk of the undertaking is

comparatively low (Puranam & Vaneste, 2016). Based on the type of non-equity alliances, also economies of scale may be an effect (Patterson, 2000). When purchasing or selling goods, size effects occur and strengthen negotiation positions (Khanna, 1998). Lastly, in strategic terms, firms may join up with rivals to focus on common goals, realizing better market positions (Bengtsson & Kock, 2014). Also, vertical integration without equity commitments becomes a viable option.

However, one key challenge of non-equity alliances is the reduced level of control: One party might commit less to the alliance than the other, resulting in a one-sided benefit (Puranam & Vaneste, 2016). Also, one cannot influence the actions of others, but due to the perceived association (image transfer), adverse brand effects may occur (Wiedmann & Gross, 2013).

Overall, non-equity alliances are considered a cost-efficient and risk-friendly governance structure to ally with external partners and to create value (Chan *et al.*, 1997), but their effectiveness is difficult to measure.

2.3.2. Mergers and Acquisitions

When looking at the inorganic growth path of expansion, M&As are the counterpart to non-equity alliances. Both, mergers and acquisitions, have the common characteristic that at least one entity discontinues to exist: In a merger, (mostly) two firms decide to 'join forces' and form one new corporation (thus both cease to exist), and in an acquisition, one firm acquires the other (Puranam & Vaneste, 2016). There are various benefits when choosing M&As as entry mode, and this research moves on by focusing on acquisitions:

Firstly, acquisitions are timesaving, since desired resources can be accessed immediately (Lee & Liebermann, 2010), making it a popular choice among managers. Secondly, a company can acquire unique 'VRIN' resources and capabilities that no other market player possesses and wholly owns and controls them (Dyer *et al.*, 2004). Also, corporations can buy out their competitors out of the market to strengthen market power and inorganically increase market share immediately. Further, by enlarging its size, a firm can profit from economies of scale (reducing cost-prices per unit) and scope (splitting e.g. infrastructure cost on more business units) (Johnson *et al.*, 2017). Acquisitions are particularly seen as useful governance choices when entry barriers of a market are high, as the target already solved e.g., legal issues and as an educated customer base often already exists (Yip, 1982). On the

downside, acquisitions often entail purchase price premiums and additional (mostly hidden) *ex-post* integration costs, partially offsetting the listed benefits (Datta, 1991).

In contrast to other entry mode choices, measuring the effectiveness of acquisitions is possible (e.g., Kusewitt's model to determine acquisition success (1985)), but there is an on-going debate on the ex-post success of an acquisition for the acquiring firm (e.g., King *et al.*, 2003; Bauer & Matzler, 2013). Well-studied within the scope of emerging markets, various scholars have explored the complexity of cross-border acquisitions, finding evidence on internal (e.g., Trichterborn *et al.*, 2015) and external (e.g., Bertrand *et al.*, 2016) influences impacting acquisition success, including cultural, political, and environmental challenges.

Overall, M&As are considered a timesaving governance choice that brings direct (e.g., novel and unique resources and capabilities) and indirect (e.g., strengthening of market positions) effects to a company, that however may be costly and entail additional risks.

2.3.3. Acquisitions vs. Non-Equity Alliances

Numerous papers contrast non-equity alliances and acquisitions in the scope of established industries and cross-border transactions. Some fundamental principles become evident: Acquisitions are generally preferred over non-equity alliances when timing is essential and when high levels of control are required. Also, Dyer *et al.* (2004) distinguish between different types of target resources that may impact the choice of governance. Looking at previous deals, strategy literature suggests that among others, the choice of acquisitions is positively associated with acquirers' technological (R&D) intensity, prior acquisition experience, solvency, and diversification level (e.g., Villalonga & McGahan, 2005). Diversification level of acquirers and also acquirer-target relatedness play a significant role and are further discussed in the next section.

As previously stated, findings suggest that these mechanisms may not hold in the light of a nascent industry target. Even though nascent industry research has gained importance in strategy literature, and various studies regarding general industry entry and timing of entry exist (e.g., Benner & Tripsas, 2011; Moeen, 2017), the mechanisms towards choosing particular entry modes remain undiscovered.

However, some studies provide insights on preferred governance choice when certain contextual features of nascent industries are present. Generally, acquisitions seem to be the preferred choice when industries are growing rapidly: Hennart and Reddy (1998) state that firms want to profit from time advantages if rapid growth is ahead. These advantages are triggered as opportunity costs are reduced (Lee & Liebermann, 2010), and as full ownership of an entity in a fast-growing environment also brings full financial benefits. Besides, acquisitions allow a company to secure critical and novel resources that no other firms obtain, which may be of particular interest if there is a high degree of competition for resources (Dyer *et al.*, 2004). As such, younger and technological-advanced firms prefer acquisitions to deepen knowledge and to remain ahead (Moeen & Agarwal, 2017). Also, York and Lenox (2014) highlight the differences of start-ups versus diversifying incumbents when choosing acquisitions in emerging industries.

On the other hand, firms prefer lower equity commitments (thus non-equity alliances) when demand uncertainty is high (Kim & Hwang, 1992) or to test out emerging frames (Stettner & Lavie, 2014). Various researchers point out that non-equity alliances are a cost-efficient and effective method to gain access to new technologies. Especially technologic companies may use non-equity alliances to check the suitability of technologic enhancements before fully incorporating them through equity-heavier entry modes (Stettner & Lavie, 2013). Non-equity alliances also serve as a tool for legitimacy-building in novel markets to add credibility to one's brand without changing corporate structures if the chosen partner already possesses a positive reputation (Dacin *et al.*, 2006). Generally, high degrees of market uncertainty result in the failure of risk assessments, resulting in an avoidance of firms commit equity (Dyer *et al.*, 2004).

Other mechanisms such as mimicking incumbents' behaviors (Ang *et al.*, 2014) or the integrative capabilities of acquirers (Moeen, 2017) may play a role when choosing between the two entry modes. Yet, it becomes apparent that there is mixed evidence on the mechanisms that are at play in nascent industries, as scholars argue simultaneously in the direction of acquisitions and non-equity alliances. In particular, a balancing act between risk avoidance through non-equity alliances and timing advantages through acquisitions is observable. Thus, the expected direct effect of nascent industry entry on entry mode choice remains in question, leading to competing hypotheses (orienting propositions):

Hypothesis 1A: *The likelihood of choosing an acquisition as an entry mode is higher when expanding into a nascent industry rather than into a non-nascent industry.*

Hypothesis 1B: *The likelihood of choosing a non-equity alliance as an entry mode is higher when expanding into a nascent industry rather than into a non-nascent industry.*

2.3.4. Moderating Effects on Entry Mode Decisions

When considering prominent literature of entry mode choice in well-established industries and cross-border deals, it becomes evident that the underlying mechanisms of such decision are complex. Precisely, it is highly intertwined with a firms' internal structure and abilities (e.g., solvency, experience, size, diversification level, intangible resources) and external market influences (e.g., cross-border particularities, acquirer-target relatedness, competitive rivalry, legal issues). While this thesis seeks to answer the fundamental question which entry mode is preferred when entering nascent industries, it is likely that also this relationship is not singular and thus affected by such influences. Even though various papers test long lists of moderating effects in a single study (e.g., Erramilli & Rao, 1993; Villalonga & McGahan, 2005; Ang *et al.*, 2014), these papers rely on given core assumptions. Since there is mixed evidence regarding the direction of effects, as summarized in Hypothesis 1A and 1B, this study chooses two moderating effects that are commonly used by strategists and likely impact the effects of the relationship between nascent industry entry and governance structure (Andersson *et al.*, 2014). In particular, this section provides two interaction variables and suggests how their presence may modify the core mechanism. In line with Andersson *et al.* (2014), this paper explores the previously described modification and does not account for the theoretical existence of reverse interaction effects. Also, as pointed out by Bettis *et al.* (2014), due to the exploratory nature of this study, the hypotheses that are suggested by literature serve as orienting propositions and may thus have competing expected results.

The first moderating variable studied is *industry relatedness*. Used in various papers (Balakrishnan & Koza, 1991; Hennart and Park, 1993; Hennart & Ready, 1998; Brouthers & Brouthers, 1999; Villalonga & McGahan, 2005; Lee & Liebermann, 2010; Ang *et al.*, 2014), industry relatedness describes the proximity between the acquirer's and the target's core markets (Lee & Liebermann, 2010). To be specific, relatedness is achieved if both firms primarily operate in the same industry, as captured by the SIC classification system on a two-digit level

(see method section for further information). Some studies refer to it as business similarity, too (e.g., Ang *et al.*, 2014).

Various studies measure the impact of industry relatedness (or also referred to as product relatedness) on governance structure (thus, its direct impact on the dependent variable of this study). Generally, it becomes evident that, in the absence of other governance choices, industry relatedness has a positive effect on acquisitions and a negative effect on non-equity alliances:

Numerous researchers point out that industry affiliation increases the acquirer's ability to evaluate potential targets. This enhanced evaluation leads to a more precise risk assessment of acquirers. As a consequence, acquirers are less likely to pay hefty premiums, increasing the probability of venture success (Hennart & Reddy, 1997; Villalonga & McGahan, 2005; Lee & Liebermann, 2010). Also, economies of scale and scope are easier achievable (Villalonga & McGahan, 2005). In addition, industry relatedness reduces post-acquisition integration efforts as administrative routines tend to systematically differ between and not within industries (Hennart & Reddy, 1997). In contrast, as previously outlined, non-equity alliances have the particular advantage to enhance a company's knowledge regarding novel resources and capabilities (Balakrishnan & Koza, 1991; Hennart & Reddy, 1997; Villalonga & McGahan, 2005). In summary, industry relatedness seems to have a positive direct effect on acquisition probability.

When assessing the moderating effect of industry relatedness on the cause-effect relationship of nascent industries and acquisition likelihood, literature provides miscellaneous arguments:

On one hand, scholars suggest that industry relatedness may reduce the perceived uncertainty of buyers. In consequence, acquirers are more likely to embrace the uncertainty and to potentially find methods of valuing acquisition prices more accurate, diminishing the risk of overpaying (Coff, 1999). In another study using the digital camera industry as empirical context proxying nascent industries, Benner and Tripsas (2011) find that there are primary advantages for acquirers in related industries, favoring acquisitions if relatedness is given. Together, the buyers' reduced perceived uncertainty potentially results in a higher acquisition probability and could thus positively moderate the core relationship between nascent industry and acquisition as entry mode.

On the other hand, from a resource perspective, related acquirers may not have the need of acquiring new businesses to obtain novel, industry-specific resources and capabilities. Potentially, these firms already possess the required knowledge to establish in a nascent industry but may lack other aspects for a successful market entry (Bouncken & Friedrich, 2016). Rather, they may choose non-equity alliances with related firms, engaging in coopetition, to ultimately build legitimacy in a nascent industry (Dacin *et al.*, 2006). This line of thought results in a negative moderation effect: The reduced need for resources and enhanced need for legitimacy could potentially moderate the core relationship between nascent industry and acquisition as entry mode negatively.

In a nutshell, literature provides miscellaneous arguments regarding the direction of the moderating effect of industry relatedness on the relationship between nascent industries and acquisition probability. Therefore, this study proposes the following orienting propositions in the form of competing hypotheses (Bettis *et al.*, 2014):

> ***Hypothesis 2A:*** *The effect of a nascent industry on acquisition probability is positively moderated by acquirer-target industry relatedness.*

> ***Hypothesis 2B:*** *The effect of a nascent industry on acquisition probability is negatively moderated by acquirer-target industry relatedness.*

Besides industry relatedness, this study proposes the *acquirer's level of corporate diversification* as other moderating effect. The more industries (measured by the count of four-digit SIC codes, as shown in the method section), a corporation partakes, the more diversified it can be considered (Caves & Mehra, 1986).

There is a consensus by scholars on the logic that the level of corporate diversification is positively associated with the choice of acquisitions, and negatively associated with other entry modes, as becoming highly diversified is inherent with acquiring spots in new areas (Kogut & Singh, 1988; Brouthers & Brouthers, 1999; Villalonga & McGahan, 2005). Villalonga and McGahan (2005) also argue that diversification level can serve as a proxy for acquisition experience, and that managers often remain with their predominant governance choice when expanding, an argument that is particularly strong when organic growth is not an

option. Another research stream finds that diversified corporations sometimes prefer non-equity alliances in order to slim down extensive corporate structures and to avoid discounted trading at stock markets (Shleifer & Vishny, 1991; Ramachandran *et al.*, 2013), which is however not empirically applicable as shown by Villalonga and McGahan (2005). Overall, the direct effect of diversification level on acquisition probability tends to be positive in strategy literature.

Similar to the effect of industry relatedness, existing theory offers arguments in ambiguous directions for the moderating effect of diversification level on the cause-effect relationship between nascent industries and acquisition probability. As pointed out, executives must manage a balancing act between perceived uncertainty and exponential growth in their governance formulation. Being more diversified as a company has positive and negative implications on such balancing act:

On the one hand, diversified companies are more likely to have measures in place that allow for better risk management and uncertainty acknowledgement (Matsusaka, 2001). This would also enable firms to profit from and further foster the exponential growth. Diversified firms may be able to exploit additional economies of scope throughout their corporate umbrella and may be able to divest unnecessary assets easier (Hitt & Ireland, 1986). Also, diversified companies foster convergence by accumulating distinctive competencies (Hitt & Ireland, 1986). Together, the enhanced experience could potentially lead to a positive moderating effect of diversification level on the relationship between nascent and acquisitions.

On the other hand, horizontal diversification is often motivated by risk-hedging. Precisely, firms want to avoid being overleveraged in a particular industry to sustain economic shocks (Amit & Livnat, 1988). As such, the immense level of uncertainty of nascent industries could possibly discourage firms' business entry through equity commitments, if the strategic motive is risk prevention. Following the same line of thought as for industry relatedness, diversified firms may not require novel, nascent resources and capabilities, as they cover these already in their broad range of businesses (Bouncken & Friedrich, 2016). Further, highly diversified firms may even find negative synergies when entering nascent industries, as e.g., *ex-post* integration into existing ecosystems may be challenging (Wiersema & Bowen, 2008). Summarized, the strategic motive of using corporate diversification as hedging against risk and the increased integration efforts required could negatively moderate the relationship between nascent industries and acquisition probability.

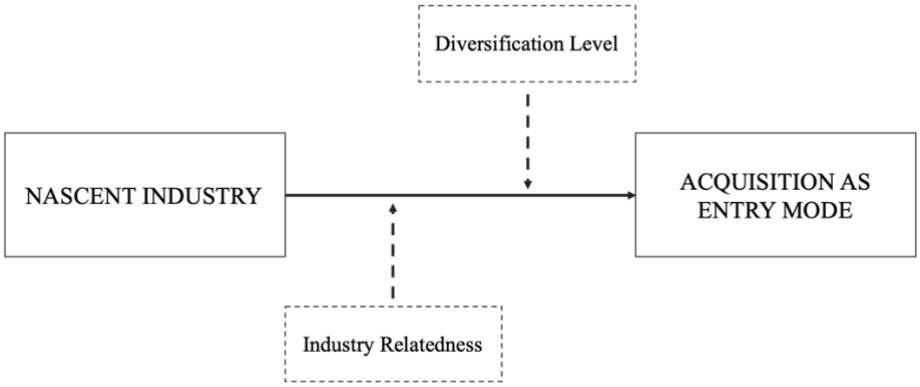
Combined, theory provides mixed evidence on the impact of diversification level on the relationship between nascent and acquisition likelihood. This results in the following orienting propositions, framed as hypotheses (Bettis *et al.*, 2014):

> ***Hypothesis 3A:*** *The effect of nascent industry on acquisition probability is positively moderated by diversification level of acquirers.*

> ***Hypothesis 3B:*** *The effect of nascent industry on acquisition probability is negatively moderated by diversification level of acquirers.*

In summary, this paper aims to assess the impact of nascent industries on entry mode choice, and how this is moderated by industry relatedness and diversification level. Three orienting propositions have been developed based on a literature review and translate into the following conceptual framework:

Figure 5: Conceptual framework



3. Methods

3.1. Research Design

In line with Saunders *et al.* (2015), this section examines the design of this research before providing detailed information on the data collection and data analysis. A positivistic epistemology philosophy was chosen for this study, as it aims to prove an objective, real-world phenomenon. The theory review indicates that this research follows a deductive approach, as hypotheses are derived from existing literature and posed for further testing (Collis & Hussey, 2003).

However, in a *Strategic Management Journal* editorial, Bettis *et al.* (2014) point out that *"the use of a varied toolkit […] advances strategic management research"*. Precisely, the editors suggest that studies' accuracy should not be limited by methodological constraints. In this research, existing theory has provided miscellaneous evidence pointing at different expected effects. Thus, as a bridge between explanatory and exploratory research, the contradicting hypotheses derived in the previous section can be seen as 'orienting propositions' rather than exact, conventional hypotheses (Bettis *et al.*, 2014). To enhance the reliability, validity, and generalizability of this study, a quantitative mono-method was chosen, consisting of a cross-sectional sample of deals.

This method allows to show a credible and objective picture of the cause-effect relationships that are in place (Saunders *et al.*, 2015). A similar approach, using orienting propositions, could potentially drive future research in topics like nascent industries, when theory is proposing ambiguous evidence (Bettis *et al.*, 2014).

3.2. Empirical Context

This study chooses the eSports and sports industries as an empirical context. As outlined, eSports consists of electronic sports, and contains various types of video games played competitively (Freeman & Wohin, 2017). While certain elements majorly overlap with traditional sports (such as teamwork, training, tournaments, mastering skills, need for professional equipment), the unique difference is the predominant usage of information technology (Wagner, 2006). There are five main reasons why the eSports industry was selected as an empirical context and why it fulfills the essential criteria of nascent industries:

Firstly, eSports is currently undergoing an exponential yet unpredictable growth. According to various industry reports of, e.g., Forbes, Statista or Thomson Reuters, the global revenue exceeded 1 billion USD for the first time in 2019 and will further increase at growth rates of around 20-30% per annum in the next five years (Ayles, 2019; Gough, 2019; Russ, 2019). Secondly, as elaborated on previously, the industry is based on technological enhancements. Due to its digital nature, it possesses a list of desirable resources and capabilities in today's business world, such as the management of virtual and cross-cultural teams (Chakraborty & Norcio, 2009), or the mastering of a 'glocal' approach (Matt *et al.*, 2015). Thirdly, the industry is often referred to as 'ecosystem', and coopetition is a common practice. Firms are competing and collaborating at the same time to maximize value creation and industry growth. Also, the convergence of firms is observable (Scholz, 2019). Fourthly, the whole industry is surrounded by strategic uncertainty. The agile and volatile nature of the industry hardly allows long-term strategic planning, and strategic management focuses on embracing and coping with uncertainty (Scholz, 2019), which is a key nascent industry characteristic (Eggers & Moeen, 2018). Lastly, there is no 'obvious' logic to choose one preferred entry mode into eSports, and both, non-equity alliances through sponsorships and acquisitions (e.g., of teams) are common practice. A detailed overview with further information on the business side of the eSports industry is provided in Appendix 1.

The control group of this research consists of deals with firms that have entered the traditional sports business. This research defines traditional sports as all types of sports that are not played electronically, but physically. Unlike eSports, traditional sports provide a much broader range of entry opportunities (e.g., sports apparel, professional teams, franchising options). Even though the industry is also prospering, growth is achieved linearly rather than exponentially (O'Connell, 2020). In comparison to its nascent counterpart, the sports industry has existed for centuries and remains one of the most essential types of entertainment in today's world, through live events and television and online viewership (Carter, 2011). Due to its large industry size, consistent financial figures and strong formation of regulatory bodies, uncertainty in sports is very limited. The marketplace exists of both, traditional companies and incoming start-ups, which are monetizing numerous aspects of sports (Rosner & Shropshire, 2011). Contrasting it to eSports, it is likely that every person in the world knows and potentially has practiced some types of sports.

Even though there is a limited body of research on the particularities of entry mode decisions in sports, it is observable that both, non-equity alliances (e.g., sponsorship deals), but also equity alliances and acquisitions are possible (Arthur *et al.*, 1997). Particularly non-equity alliances seem to be considered as effective market entry in the competitive sports scene (Quester, 1997). Thus, the sports industry can be considered as viable non-nascent control group.

In a nutshell, comparing eSports and sports deals is a preferable empirical context to test whether entry mode mechanisms deviate between nascent and established industries. eSports fulfills various criteria of nascent industries, that sports, established for centuries, does not. The particular advantage of choosing this empirical context is the opportunity of direct comparison, which is not always possible in other emerging industries.

3.3. Data Collection

3.3.1. Variables

The research is designed to test one dependent variable, which is explained by one explanatory variable and a vector of controls. In addition, two moderating effects test the relationship between the explanatory and the dependent variable further. The names of the variables may vary in the statistical outputs projected in the appendices, and a transition table can be found in Appendix 2.

Dependent Variable

In line with numerous papers investigating drivers of entry mode decisions (Hennart & Reddy, 1998; Brouthers & Brouthers, 1999; Wang & Zajac, 2007; Lee & Liebermann, 2010, Ang *et al.*, 2014), the chosen dependent variable of this study is a binary dummy called *Entry Mode*. It takes a value of 1 if the chosen entry mode of a deal is an acquisition and a value of 0 if the deal type is a non-equity alliance. Since in practice the value can either be 1 or 0, but nothing in between, this variable measures the likelihood of choosing each entry mode, with positive coefficients increasing the probability to use acquisitions and negative coefficients decreasing the probability to use acquisitions (thus increasing the probability to choose non-equity alliances).

Explanatory Variable

As previously outlined, the central relationship tested is how entering a nascent industry affects the governance choice. The chosen nascent industry frame for this research project is eSports, and the non-nascent counterpart is the traditional sports landscape. As such, a dummy called *Nascent* was created. All deals with eSports targets take a value of 1, and all traditional sports business deals take a value of 0. Table 1 provides an overview of the differences between nascent and non-nascent deals:

Table 1: Company characteristics by deal type

	eSports entrants	*Sports* entrants
N	*113*	*407*
Average Revenue in M USD	27.8	103.0
Average No. Of Subsidiaries	97	141
Average No. Of Industry Codes	2.4	3.0
Average founding year	*1988*	*1964*

Table 1 shows that differences between the two sub-samples exist. Companies investing in eSports seem smaller in terms of size and scope, younger, and active in fewer industries. Also, fewer deals were captured in the sample. Further insights can be found in the results section.

Moderating Variables

The industry relatedness of acquirer and target. The industry relatedness is predicted to have an impact on nascent industries and governance choice. The general logic, as depicted in section 2.3.4., is that firms are more likely to use an acquisition if business similarities are present, as corporations can assess the risk better and have higher chances of synergies (Stettner & Lavie, 2014). Business similarity and industry relatedness are used interchangeably in this context. Even though more sophisticated methods to measure the exact degree of relatedness exist (Lee & Liebermann, 2010), this research utilizes a simple dummy variable (also commonly used) to assess the relationship between acquirer and target at a SIC-2-level: The dummy takes on the value of 1 if both, acquirer and target, primarily work in the same two-

digit SIC industry (Balakrishnan & Koza, 1991; Hennart and Park, 1993; Hennart & Reddy, 1998; Brouthers & Brouthers, 1999; Villalonga & McGahan, 2005; Ang *et al.*, 2014). In the final sample, 42.3% of deals were completed between related companies and 57.7% between unrelated ones. Further information on the exact SIC-2 codes used can be found in the next section.

The level of diversification of the acquirer. As outlined in chapter 2.3.4., the level of diversification of an acquirer is likely to impact the cause-effect relationship between nascent industries and governance choice. As a proxy commonly used for diversification level, the count of four-digit SIC-codes of the acquirer is used (e.g., Lee & Liebermann, 2010). As such, the more industries a corporation actively conducts business in, the more diversified it is considered (Caves & Mehra, 1986). The data was screened for outliers, and since higher values did not result in changes in the significance of effects, all values remained in the final sample.

Exploring the dataset, one can observe that 37% of firms are only active in their core business segment, while most firms are at least partially diversified. The dataset also includes some conglomerates active in 10 or more different business segments (3%). The general logic explained in section 2.3.4. is that more diversified firms prefer to use acquisitions (Kogut & Singh, 1988; Shleifer & Vishny, 1991; Brouthers & Brouthers, 1999; Villalonga & McGahan, 2005). Yet, it remains uncertain how it moderates the relationship between nascent industries and entry modes.

Control Variables

Various controls commonly used in strategy research were added to the final model to enhance the robustness of the models and validity of the results:

Firm size. The acquirer's total assets were used as a proxy to account for the firm size of the acquirer (which may positively influence the ability to engage in the preferred mode of entry) (Agarwal & Ramaswami, 1992; Ang *et al.*, 2014). To avoid skewness, account for outliers, and for interpretation reasons, a logarithmic function of total assets was used. Even though scholars like Wang and Zajac (2007) additionally calculate the relative firm size in the acquirer-target relationship, such measure was not conducted in this thesis, as this research entails a one-sided rather than a dyadic view on the entry mode.

Company status flag. To account for possible differences due to a company's legal type (e.g., publicly listed corporations may be able to fund acquisitions easier), the dummy variable *Public* was created, taking on a value of 1 if the acquirer is publicly listed on any international stock exchange or a value of 0 if it is private (Ang *et al.*, 2014).

Ability to manage multiple businesses. The *Number of Subsidiaries* under a corporation's umbrella is used as a proxy to grasp whether firms have the organizational capabilities to manage multiple businesses and to account for the complexity of decision-making processes (Jaggi & Tsui, 1999; Belderbos, 2003), potentially driving acquisition likelihood.

Firm performance. The corporation's firm performance may have an impact on the chosen governance mode, as firms are able to take higher risks if being very profitable. In this case, *Return on Total Assets* is chosen as a proxy for firm performance (Ang *et al.*, 2014).

Age of the firm. As one might hypothesize that a firm's age might influence an entry mode decision (e.g., older firms are more conservative and younger firms more risk-taking and more open for nascent businesses), the *Age* was computed by subtracting the focal year (2020) by the founding year of the corporation (York & Lenox, 2014).

When considering other papers, it is noticeable that strategists use additional controls based on the contexts. These include among others sectorial dummies (Kogut & Singh, 1988; Ang *et al.*, 2014), cash reserves (Ang *et al.*, 2014), prior experience per entry mode (Yiu & Makino, 2002), proxies for intangible assets (R&D and marketing intensity ratios) (Lee & Liebermann, 2010; Villalonga & McGahan, 2005), multinational experience (Kim & Hwang, 1992), or cultural distance (Kogut & Singh, 1988). Such controls were considered, yet purposefully not included in the final model either due to a misfit (e.g., cultural differences) or unavailability (e.g., prior experience with each subsequent entry mode). Thus, only the most relevant variables were used, also due to the impossibility of including all the variables proposed in corporate strategy research. It is also evident that additional variables only marginally add to the accuracy of a model in comparison to the additional effort (Kim & Hwang, 1992).

3.3.2. Data Sources and Search Strategy

Various scholars exploring the particularities among entry mode choices use either a sample with deals done by the largest firms (e.g., S&P 500), or all deals happening in specific industries to observe the phenomena of entry mode decisions. In recent years, particularly Thomson Reuters' SDC, but also Bureau van Dijk's Zephyr dominate strategy and finance literature as data sources on a deal level (Schilling, 2009; Bollaert & Delanghe, 2015). This research seeks to understand the mechanisms at play when entering a nascent industry. Nascent industry research comes with the disadvantage that such industries do not possess specific codes in either the SIC or NAICS industry code system. As such, filtering deals by industry code was neither possible in SDC nor in Zephyr to yield eSports deals. Therefore, this study uses an alternative approach:

Through the free text search function in the "business description" category of the target of a deal, the keywords *"eSports", "e-Sports", "electronic sports",* and *"competitive gaming"* were used, in both SDC and Zephyr. The search yielded inconsistent results in SDC, including numerous deals that were marked false positive, thus, not being actual eSports deals. However, in Zephyr, a detailed manual check confirmed that the results consistently displayed eSports deals. As such, Zephyr turned out to be better at tracking the acquisitions for this research project. All completed eSports deals with majority acquisitions (50.1% and above) registered after January 2015 were selected. However, Zephyr comes with the limitation that it only entails few to no information on strategic alliances. In this case, SDC turned out to be more accurate, and Thomson Reuters News DB was used to find all strategic alliances (TR-code *"ALLCE")* in eSports (TR-code *"ESPO"*). The resulting SDC alliances and Zephyr acquisitions were then standardized and merged into one combined database. Thus, both SDC and Zephyr were used, and further manual data search was avoided for credibility and reliability reasons. Yet, missing data was completed manually through Bureau van Dijk's ORBIS platform.

In the same manner, the sample used as a control group (the traditional sports sector) was created, with the only difference that the SIC system does account for traditional sports. Thus, instead of filtering by business description, the SIC-codes *3949 (Sporting and athletic goods, not elsewhere specified), 794 (Commercial sports), 7941 (Professional sports clubs and promoters),* and *7997 (Membership sports and recreation clubs)* in the same time frame were chosen.

Due to a lack of data on joint ventures and internal development, these entry modes were not considered in this study but may be of researchers' interest in future research. Further information on the search strategy can be found in Appendix 3. Overall, as outlined by Schilling (2009), the approach used may yield reliable results for corporate strategy research and the novel set of data gathered may drive future studies.

3.4. Data Analysis

This section describes how the initial dataset was modified to fit the research purpose, and how the actual data analysis was computed[1].

3.4.1. Sample Modification

The four search results (two SDC results for alliances and two Zephyr results for acquisitions) were exported to and merged in Excel. The final sample used for the further data analysis had to be modified in numerous steps:

Firstly, unnecessary columns (that were added into the export, but turned out to be irrelevant) were deleted. Secondly, duplicates (some alliances were reported multiple times) were eliminated, initially by the Excel automation and then again manually (Villalonga & McGahan, 2005). Thirdly, missing, yet relevant values (particularly of the strategic alliance database), were added manually through an ORBIS search wherever possible. Fourthly, all deals that remained with incomplete information were deleted from the dataset. Fifthly, some data points were cross-checked at random for accounting errors of SDC (Villalonga & McGahan, 2005), and some observations were either eliminated or adjusted. After conducting these five steps, the pre-final data sample was further modified by creating all variables described in 3.3.1.

An overview of all variables and how they were created can be found in Appendix 2. The dataset was then tested for outliers, and some observations were excluded when necessary. The final sample includes 520 observations.

[1] RStudio by RStudio Inc. was used for all statistical analyses and modified in Microsoft Excel for design purposes

3.4.2. Statistical Analysis

This study uses a logit model to test the previously introduced hypotheses with the final sample. Model (1) shows the effect of the controls (including the baseline effects of the moderators in absence of group memberships) on the total sample. Model (2) observes the direct effect of nascent industry on entry mode. Models (3) and (4) show the separate interaction effects, and the final model (5) includes all moderating interaction terms:

Model (1)	$Y_e = \beta_0 + \beta_2 Z_1 + \beta_3 Z_2 + \beta_4 C + \varepsilon_e$
Model (2)	$Y_e = \beta_0 + \beta_1 X_e + \beta_2 Z_1 + \beta_3 Z_2 + \beta_4 C + \varepsilon_e$
Model (3)	$Y_e = \beta_0 + \beta_1 X_e + \beta_2 Z_1 + \beta_3 Z_2 + \beta_4 C + \beta_5 Z_1 X_e + \varepsilon_e$
Model (4)	$Y_e = \beta_0 + \beta_1 X_e + \beta_2 Z_1 + \beta_3 Z_2 + \beta_4 C + \beta_6 Z_2 X_e + \varepsilon_e$
Model (5)	$Y_e = \beta_0 + \beta_1 X_e + \beta_2 Z_1 + \beta_3 Z_2 + \beta_4 C + \beta_5 Z_1 X_e + \beta_6 Z_2 X_e + \varepsilon_e$

In the models, Y_e describes the probability of choosing an acquisition as entry mode. $\beta_1 X_e$ is the main, direct effect of *Nascent* on entry mode. Both $\beta_2 Z_1$ and $\beta_3 Z_2$ show the direct impact of the moderators on entry mode. $\beta_4 C$ is a vector of control variables; β_0 describes the constant and ε_e the error term with all factors that cannot be observed through the sample (Hoetker, 2007). In Models (3), (4) and (5), the terms $\beta_5 Z_1 X_e$ and $\beta_6 Z_2 X_e$ depict interactions between the main intervention and the moderators. To make interactions between group membership in logit and probit models, the assumption that the unobserved variation is the same across the groups (eSports versus traditional sports) was made (Hoetker, 2007).

Unlike in ordinary least squares (OLS) regressions (Wiersema & Bowen, 2009), logit models must be used when the dependent variable is a dummy (Hoetker, 2007). The logistic function accounts for the limitations of linear models and transforms all values to a range between 0 (0%) to 1 (100%). A comparison between the linear probability model, a logistic regression model, and a probit model, as well as additional information on the misfit of a linear probability model, can be found in Appendix 4. Logit and probit models differ marginally in the way of proceeding the data but should yield very similar results. As such, this research moves on by using a logistic regression.

Hoetker (2007) and Wiersema and Bowen (2009) highlight the challenges when using logit and probit models. In their work, they outline four critical issues, ranging from interpreting coefficients to general model fit that hinder researchers in formulating accurate results. This study considers all of these critical issues in the results and discussion section.

To answer the research questions at hand, the model does not test for a dyadic relationship between acquirer and target, but purely focuses on the company characteristics of the acquirer. Also, the model seeks to explain the differences between acquisitions and non-equity alliances without considering further entry modes such as joint ventures, making the use of a multinomial logit/ probit model inappropriate (Kogut & Singh, 1988). Further information regarding the potential influences of dyadic considerations and additional entry modes can be found in the limitations chapter.

4. Results

This chapter presents the results of the statistical analysis. Table 2 provides descriptive statistics to get an initial overview of the sample:

Table 2: Summary statistics (520 observations)

Variable		Mean	Std. Dev.	Min.	Max.
(1)	Entry Mode: 1 = acquisition, 0 = non-equity alliance	0.52	0.50	0	1
(2)	Size: Total Assets (million USD), divided by 1,000	45.6	161.65	0.01	1,951.16
(3)	Firm Performance: EBIT divided by Total Assets (Return on Total Assets)	0.00	0.26	-1.92	0.88
(4)	Public Dummy: 1 = publicly listed, 0 = otherwise	0.90	.30	0	1
(5)	Number of Subsidiaries	131.14	324.74	0	3,809
(6)	Age: Number of years since a firm's founding	27.51	26.93	1	174
(7)	Related Dummy: 1 = acquirer-target relatedness at two-digit SIC-code, 0 = otherwise	0.42	0.49	0	1
(8)	Diversification Level: Number of four-digit SIC-codes under acquirer's corporate umbrella	2.89	2.77	1	33
(9)	Nascent Dummy: 1 = target's industry is eSports, 0 = target's industry is sports	0.22	0.41	0	1

It is worth mentioning that about 21.7% of recorded deals were eSports deals and 78.3% traditional sports deals. Acquisitions and non-equity alliances are (almost) equally distributed in the sample.

Table 3: Correlation matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1)	1								
(2)	-0,27	1							
(3)	-0,10	-0,01	1						
(4)	-0,08	0,06	0,03	1					
(5)	-0,20	0,50	0,03	0,12	1				
(6)	-0,20	0,10	0,22	0,07	0,14	1			
(7)	0,24	-0,16	-0,09	-0,10	-0,10	-0,17	1		
(8)	0,01	0,17	-0,05	0,07	0,23	0,25	-0,22	1	
(9)	-0,18	0,01	-0,06	-0,23	-0,06	0,09	-0,03	-0,10	1

Table 3 shows how each variable correlates with each other. In a pre-check, it became evident that revenue and total assets strongly correlated with each other at 0.93. Therefore, only the total assets were used as a proxy for company size. A variance influence factor test (VIF-test) was conducted to ensure that no multicollinearity is present within the explanatory variables. As shown in Appendix 5 (Figure 15), all values range between 1 and 2, indicating that the model can be used for the further procedure (all values between 5 and 10 are considered critical and may be a hint for multicollinearity).

Table 4 presents the results of the logistic regression for the five models computed in section 3.4.2.:

Table 4: Logistic regression estimating the use of acquisition as entry mode

	Entry Mode: 1 = acquisition, 0 = non-equity alliance				
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)
Firm-level Controls					
Total Assets (natural log)	-1.206***	-1.201***	-1.208***	-1.185***	-1.193***
	(0.119)	(0.120)	(0.122)	(0.120)	(0.122)
Firm Performance	-0.019	-0.036	-0.032	-0.032	-0.024
	(0.075)	(0.079)	(0.079)	(0.079)	(0.079)
Public Dummy	0.089	-0.295	-0.362	-0.246	-0.317
	(0.374)	(0.407)	(0.410)	(0.408)	(0.411)
Number of Subsidiaries	0.001	0.001	0.001	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Age	-0.001	-0.001	-0.0002	-0.002	-0.001
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Diversification Level	0.246***	0.222***	0.226***	0.253***	0.274***
	(0.058)	(0.059)	(0.059)	(0.063)	(0.065)
Related Dummy	0.671***	0.632***	0.836***	0.616**	0.901***
	(0.240)	(0.243)	(0.275)	(0.244)	(0.277)
Main Effect					
Nascent Dummy		-1.024***	-0.634*	-0.391	0.424
		(0.305)	(0.378)	(0.494)	(0.603)
Moderating Effects					
Related x Nascent			-0.959*		-1.369**
			(0.577)		(0.606)
Diversification Level x Nascent				-0.298	-0.409**
				(0.189)	(0.188)
Constant	2.625***	3.248***	3.229***	3.101***	3.014***
	(0.471)	(0.535)	(0.536)	(0.543)	(0.544)
Observations	520	520	520	520	520
Log Likelihood	-243.542	-237.603	-236.217	-236.226	-233.665
Akaike Inf. Crit.	503.084	493.206	492.434	492.453	489.329

Note: *p<0.1; **p<0.05; ***p<0.01

Model (1) shows the baseline effects of all controls without adding group membership of nascent or non-nascent targets to the picture. In line with the expectations provided by strategy literature (section 2.3.4.), diversification level, and the acquirer-target-relationship dummy do have significant positive effects on acquisitions as entry mode at $p<0.01$ (when holding all other factors constant). Total assets enlargement reduces acquisition likelihood; hence larger firms seem to choose non-equity alliances more frequently in the sample at hand. The model does not find significant effects when looking at a company's firm performance, its number of subsidiaries, age, and public status. Overall, the results confirm the claims of corporate strategy research, indicating the fit of the sample for the research purpose.

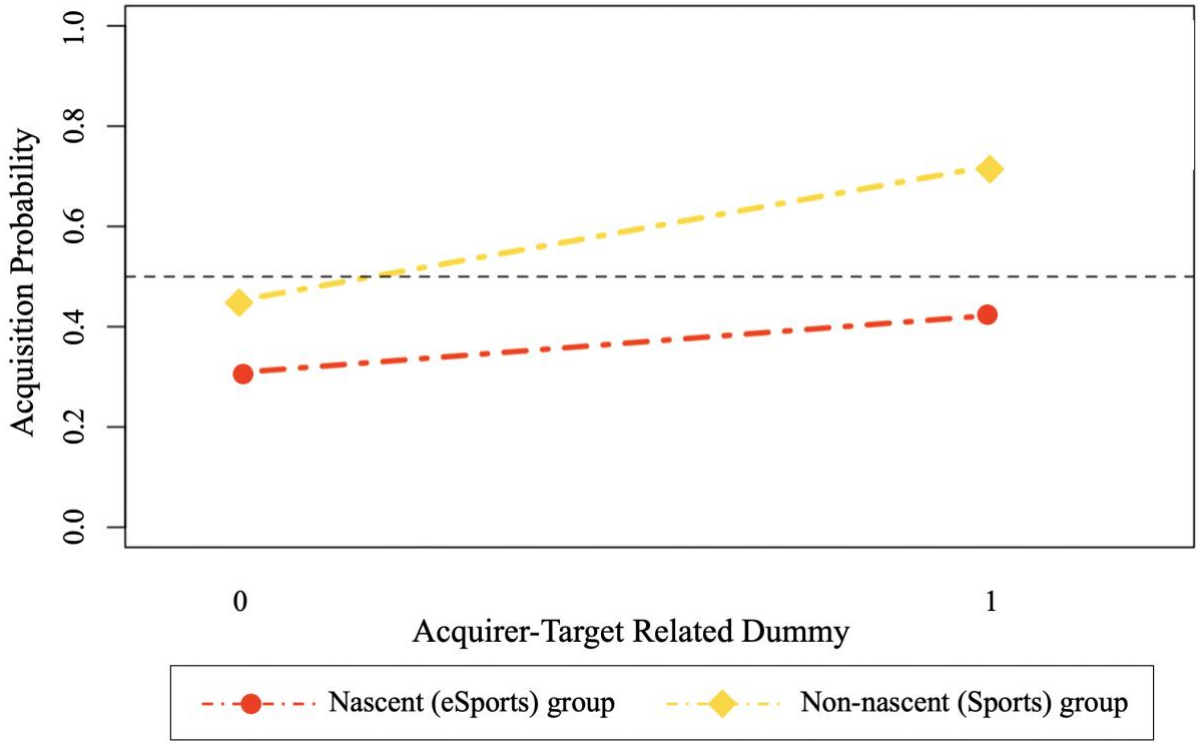
The main effect of nascent industries on acquisition likelihood. Model (2) shows the baseline effect of nascent group membership. It becomes evident that there is a significant negative impact on acquisitions if the deal was an eSports (nascent) deal at $p<0.01$. Thus, an acquisition into eSports is less likely than an acquisition into sports; vice versa, firms are more likely to use non-equity alliances when entering eSports, supporting Hypothesis 1_B and failing to support Hypothesis 1_A.

Even though Hoetker (2007) and Aguinis *et al.* (2016) suggest to solely interpret the direction of the effect rather than the exact value due to the non-linear relationship, it is generally possible to do so: The standard best practice is a calculation of the average partial effect, computing the scale factor for every observed value of the sample. In accordance with the calculation provided in Appendix 5 (Figure 16), holding all other factors constant, the logit partial effect of eSports entry is -0.153. Consequently, on average, the probability of choosing an acquisition is 15.3% lower if an acquirer invests into eSports. Figure 18 in Appendix 6 provides graphical support for the relationship.

After finding evidence supporting Hypothesis 1_B, Models (3) to (5) were created to test Hypotheses 2_A, 2_B, 3_A, and 3_B by adding the interaction terms *Related x Nascent* and *Diversification Level x Nascent* to test the boundaries of the main effect. Looking at the final Model (5), when adding the interaction terms, the direct effects of *Related* and *Diversification Level* remain positive and significant at $p<0.01$, while the main effect of *Nascent* turns insignificant in this model. However, both interaction terms, which are the variables of interest in the model, are negative and significant at $p<0.05$.

The moderating effect of acquirer-target relatedness. As indicated, a significant negative effect is observable when looking at the interaction of acquirer-target relatedness and eSports membership. Thus, even though the overall probability of acquisitions increases with acquirer-target relatedness, it is lower if a nascent industry is entered. Hoetker (2007) points out that interaction terms are challenging to interpret, requiring a graphical presentation of the interaction to prove significance. Figure 6 entails such relationship:

Figure 6: Interaction between acquirer-target industry relatedness dummies and nascent industry dummies on acquisition probability

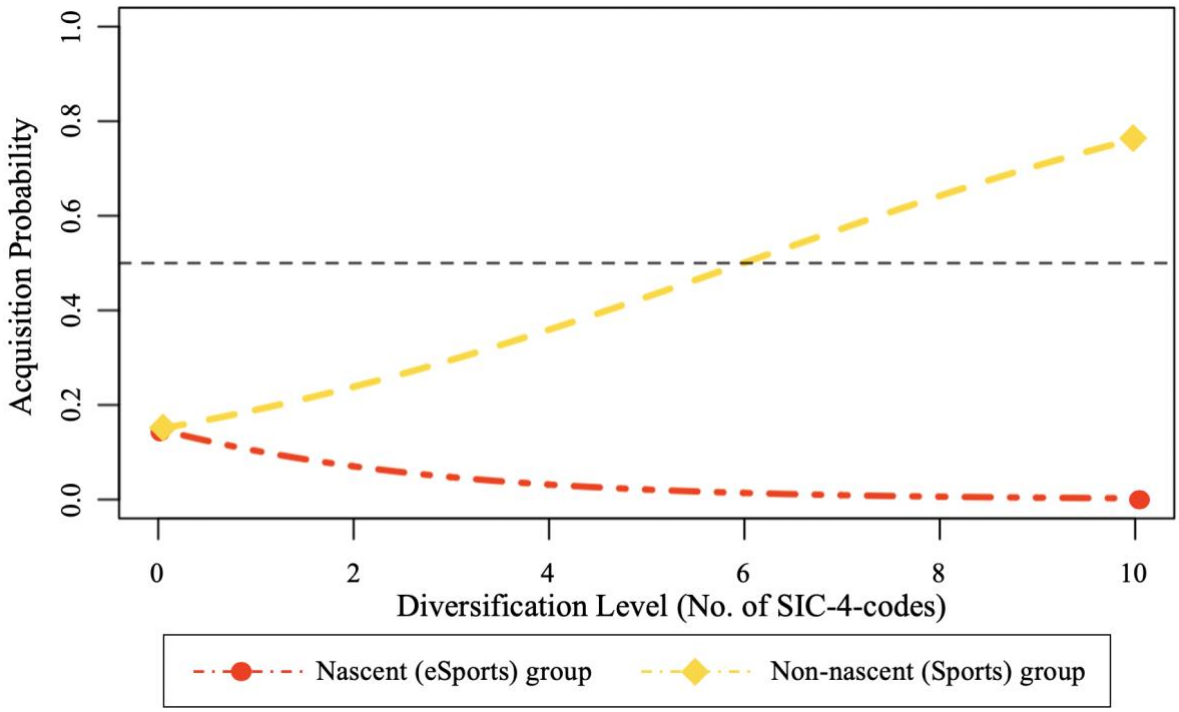


Thus, the relationship becomes more obvious when looking at Figure 6. Even though the probability of an acquisition increases for both, eSports and sports deals, when acquirer-target relatedness is present, there is a difference in the slope: The yellow dotted line (sports deals) climbs with a much higher slope than the red dotted line (eSports deals), providing logic for the negative interaction effect. Precisely, holding all other factors constant, the logit average partial effect of the interaction term *Related x Nascent* is 0.17, meaning that the acquisition probability is 17.0% lower than normally anticipated for related deals if the deal is an eSports entry (see Figure 17 in Appendix 5 for the calculation). The interaction effect of acquirer-target weakens the relationship between nascent industries and acquisition probability further.

Consequently, the model fails to support Hypothesis 2A, and supports Hypothesis 2B, as industry relatedness negatively affects the probability of choosing an acquisition when entering eSports.

The moderating effect of acquirers' diversification level. Unlike the previous interaction term, a company's level of diversification is not binary, but (theoretically) continuous, as it describes the count of SIC-four-digit codes, the corporation actively partakes. Also this interaction term is negative and significant at $p<0.05$. Figure 7 provides graphical support to interpret the interaction at hand:

Figure 7: Interaction between diversification level and nascent industry dummies on acquisition probability



While the chance of choosing an acquisition generally increases with diversification level across the overall sample (yellow dotted line), there is a diminishing effect of diversification level when entering the nascent industry (red dotted line). Applying the average partial effect calculation provided in Appendix 5 yields a negative coefficient of 0.058. In economic terms, holding all other factors constant, for each additional industry a corporation participates, the likelihood of entering eSports with an acquisition decreases by 5.8%. Similar to the other moderating effect, also an increasing diversification level weakens the relationship

between nascent industries and acquisition probability. Therefore, Hypothesis 3_B is supported, and Hypothesis 3_A is not, as the level of diversification of firms negatively affects the probability of choosing acquisitions as entry mode in nascent industries.

5. Discussion & Managerial Implications

What entry mode do firms choose when entering nascent industries? By selecting the eSports landscape as a proxy for nascent industries and comparing the deals to traditional sports entries, this study provides a fine-grained understanding of the entry mode mechanisms at play. In particular, this thesis finds that firms are less likely to choose acquisitions as entry mode when the target partakes in a nascent industry (thus failing to support Hypothesis 1_A). Vice versa, corporations are more probable to choose non-equity alliances in nascent industries (supporting Hypothesis 1_B).

This is an interesting finding: As pointed out by Arthur *et al.* (1997), the traditional sports business is mostly dominated by sponsorship deals, making non-equity alliances common practice. Under this consideration, the significant negative effect of eSports membership on acquisition choice becomes even more economically relevant and indicates that the finding may hold for other nascent industries, too, when comparing them to direct traditional counterparts. The result suggests that managers want to avoid equity commitments to nascent industries. The main explanation and probable underlying logic is the unpredictability of the entailed risks due to the uncertainty surrounding nascent industries (Kim & Hwang, 1992; Dyer *et al.*, 2004). This uncertainty could potentially lead to acquisition price premiums (Slangen & Hennart, 2007), which managers want to avoid for financial and publicity reasons. Even though growth figures indicate a very positive financial development of the eSports scene as a whole, such predictions may be seen as too inaccurate and too volatile (Hetsroni & Tukachinsky, 2006). In addition, firms may see non-equity alliances as cost-efficient method to capture novel resources (Stettner & Lavie, 2014). Companies potentially also choose non-equity alliances as legitimacy-building measures in novel markets (Dacin *et al.*, 2006).

Overall, for those reasons, there is an economic logic behind the finding that non-equity alliances are more likely than acquisitions in nascent industries (in the absence of other entry modes). The arguments in favor of non-equity alliances seem to outweigh the perks of acquisitions (e.g., time advantages, enhanced control, capturing unique resources) in emerging industries. This thesis is the first paper to provide a statistical relevant indication and explanation for the occurred effect. Also, it provides a valuable empirical context and research frame that allows such quantification.

Looking at the contingent factors and interaction effects, additional insights on the mechanisms of nascent industry entries become evident:

The first finding derives from the moderating effect of industry relatedness (Hypotheses 2_A and 2_B). As shown in the baseline model (Model 1), being active in the same industry has a strong and significant direct positive effect on acquisition probability when considering the whole sample. This finding is no surprise; corporate strategy research highlights the importance of synergy and unique resource gains in entry mode decisions (Hennart & Reddy, 1997; Lee & Liebermann, 2010; Villalonga & McGahan, 2005) as well as the common practice to buy-out market participants to strengthen competitive positions (Puranam & Vaneste, 2016).

While the theory review provided ambiguous arguments on the expected effect of industry relatedness on the relationship between nascent industries and acquisition probability, this study finds a negative moderation effect. As shown, Model 5 and also Figure 6 provide support for Hypothesis 2_B, while failing to support Hypothesis 2_A: Industry relatedness weakens the negative relationship between nascent industries and acquisition probability even further (thus makes it more negative). Even though acquisition probability in eSports increases if relatedness is given, the slope of eSports deals in Figure 6 is smaller than the slope of traditional sports deals. In other words, the slope of nascent deals increases not as much as it does for non-nascent deals. This research provides two possible logics for the occurred effect:

Firstly, in line with Bouncken and Friedrich (2016), particularly technological firms (related to eSports) may not require to 'buy-in' industry-specific resources and capabilities, as these firms may already possess them. Looking at Table 4, one can observe that the average founding year of acquirer's investing in eSports is 1988, while Sports entrants were founded in 1964. This difference in means indicates that nascent industry investors are generally younger firms that may possess modern structures. Due to their nature, such firms may consequently also decide to enter emerging businesses through internal development rather than any of the studied entry modes. Potentially, firms may use their own capabilities to build businesses, but depend on non-equity alliances to e.g., create legitimacy in the market (Dacin *et al.*, 2006).

Secondly, as pointed out by Scholz (2019), various non-endemic (thus unrelated) firms may see eSports as a relatively inexpensive option to expand into an unknown, novel area. Similarly, the negative effect of industry relatedness on nascent acquisitions signifies the

positive effect of unrelatedness on nascent acquisitions. So, in line with Scholz (2019), unrelated firms do use eSports as a playground to get involved with a new target audience, to buy into new markets, and also to add novel, outside resources and capabilities to their businesses by acquiring eSports firms. Unlike related companies, such firms would not be able to develop an eSports business internally and may also be less sensitive to acquisition premiums, as these remain small relative to other investments (Scholz, 2019). The model shown in Appendix 7 confirms this line of argumentation: Interacting an acquirer's firm size with the nascent dummy yields a significant positive result, entailing that larger firms are more likely to buy nascent targets, especially if unrelated.

In summary, moderating the relationship between nascent industries and acquisition probability with acquirer-target relatedness results in a negative effect. Even though perceived uncertainty is potentially reduced (Coff, 1999), firms choose non-equity alliances when entering nascent, related industries more frequently.

When looking at the interaction between nascent deals and diversification level of acquirers, numerous additional findings are observable. Similar to the previous interaction effect, the stand-alone coefficient of the diversification level is positively influencing acquisition probability. This finding follows economic theory, as diversified firms are generally more likely to acquire other firms.

However, when adding eSports membership to the picture, a negative coefficient occurs: For each extra industry an acquirer operates in, the probability of acquiring an eSports company decreases (supporting Hypothesis 3B). This finding indicates that diversified corporations are less likely to acquire nascent industry firms (and thus more likely to choose non-equity alliances to partake in the nascent business). Figure 7 provides a graphical illustration of the effect.

There are various possible explanations for this phenomenon: Firstly, continuing the line of thought brought up for the previous interaction term, one could hypothesize that many undiversified corporations have seen an acquisition in eSports as an opportunity to expand inexpensively into a new business and use it as 'playground', while being in full control (Scholz, 2019). Secondly, diversified corporations may have the means to enter the nascent business through internal development if of strategic interest (Mudambi & Mudambi, 2001). Thirdly, in

line with Villalonga and McGahan (2005), diversified corporations may follow the recent trend of reducing the scope of their corporations to avoid being traded at discounts (Ramachandran *et al.*, 2013), preferring to engage in non-equity alliances when entering riskier businesses to avoid further negative effects (Shleifer & Vishny, 1991). This could also prevent expensive *ex-post* integration costs (Wiersema & Bowen, 2008). Fourthly, firms may follow the strategic motive of risk-hedging when engaging in diversification, and the enhanced uncertainty does not provide ground to reduce risk, but increases it (Amit & Livnat, 1988). In addition, diversified corporations tend to have more structures and processes for acquisitions in place, thus approaching investments more conservatively. Established industries provide better plannability and richness of information for such conservative investment approaches.

Overall, the negative moderating effect of diversification level on the nascent-acquisition relationship indicates that diversified corporations seem to prefer acquiring established businesses and allying with nascent ones. Even though being highly experienced in acquisition processes, diversified firms favor the ‘safe haven’ of established industries for their equity investments.

How can managers benefit from these findings? In an attempt to bridge theoretical knowledge with practical relevance, this research provides four principal aspects of managerial implications:

Firstly, the outbreak of the recent global pandemic COVID-19 undermines the importance of a corporate-level strategy. Profitable businesses can break away through external, unpredictable economic shocks, and firms that 'put all eggs into one basket' are potentially hit harder than corporations with multiple revenue streams. Consequently, managers may recognize the benefits and opportunities entailed by corporate diversification even further. At the start of a diversification process, managers must choose which businesses are of strategic fit and interest of the corporation. To develop forward-thinking, it is crucial to consider various industry trends throughout the process, and corporations cannot simply ignore these trends. Therefore, entering (or not entering) numerous nascent industries will be a substantial part of corporate decision-making in the future. Yet, this thesis has proven that traditionally valid mechanisms on entry mode decisions differ when dealing with nascent industries. Companies are less likely to commit equity into nascent industries through acquisitions, even remaining when related or highly diversified. It is observable that firms are more careful when entering

nascent industries, probably due to their high uncertainty levels. As a consequence, firms prefer non-equity alliances with targets from nascent industries. This finding may be used for managers that seek entry in nascent industries, but it also calls for a potential change of decision-making criteria for market entries: Firms must find a way to embrace and manage the uncertainties of nascent industries, as there are more nascent industries to come in the future, and as firms may miss out on additional potential when not committing any equity.

Secondly, and building upon the first point made, it becomes apparent that an entry mode decision is complicated. This thesis e.g., has shown evidence that firms – potentially counterintuitively - are less likely to acquire nascent industry targets even though being active in similar industries. Consequently, it is evident that there is no 'strategic home game', and each entry mode decision must be carefully considered. As pointed out by Dyer *et al.* (2004), many managers do not deviate from their standard choice when choosing a governance structure. The findings of this study suggest that there should not be a 'standard choice', but rather a standard procedure to consider the fit of each of the governance forms. In the scope of this study, non-equity alliances were discussed exhaustively, and may be a governance structure that many firms do not frequently choose yet in other contexts, even though it may be beneficial. Especially in the presence of high uncertainty, non-equity alliances may be a suitable deal type for firms that do currently not practice such governance form.

Thirdly, managers can use the findings of this research to imitate practices of other corporations. As Barreto and Baden-Fuller (2006) outline, firms that are under stakeholder pressure tend to conform with practices of similar organizations to gain legitimacy. The authors prove that such imitation yields mediocre performance at best, questioning the method as source of competitive advantage. Nevertheless, building up on this line of argumentation, and applying the findings to this research, this study supports corporations with information on practices of other firms. If diversifying companies want to choose the same entry mode in nascent industries as others (Benner & Tripsas, 2011; Ang *et al.*, 2014), they could. Yet, this study suggests that managers should not rely on the decisions of others, but pro-actively assess the strategic fit.

Lastly, even though eSports has been used as an empirical context and proxy for nascent industries in general, this study provides managers with a compromised, yet fine-grained understanding of the eSports landscape as a whole. As shown, eSports has developed from a niche to a main-stream, billion-dollar industry, and non-endemic firms recognize its potential.

Besides the financial upswing the industry is currently undergoing, the eSports business possesses various resources and capabilities that may be of strategic interest to most corporations. This study finds that particularly unrelated corporations seem to acquire eSports firms to enhance their businesses in novel ways. It is possible that this trend was further accelerated through the global pandemic COVID-19, which has made managers aware of a lack of important resources in various fields (Deloitte, 2020): Topics like digitization, global virtual teams, digital leadership, and others are on the rise. All of these topics are inherent in the eSports industry. Managers can thus use the eSports context to enhance their knowledge about nascent industries, which may ultimately result in a reduced perceived uncertainty (Hambrick, 1982).

In a nutshell, this study serves as a basis for managers to re-think existing knowledge, practices, and structures currently in place when it comes to corporate diversification decisions. Successful managers understand the need for constant development and may use the findings of this thesis for further considerations when entering nascent industries, and in particular the eSports industry, in the future.

6. Limitations & Future Research

This study entails several limitations regarding the methodological setup, result analysis, and effect interpretation. This section recognizes these weaknesses and points out potential implications while also suggesting several directions for future research.

Firstly, starting with the research design, it must be mentioned that only a limited amount of literature exists that intertwines the areas of nascent industries (or eSports) and strategy. Standard practices from the field of corporate strategy were used and applied to the novel frame, and suggesting fit; yet, there is no clear evidence for the feasibility of the design. Using existing, quantitative data should yield a more generalizable result than e.g., a survey or a qualitative research design, yet such tools may have led to further, complementary insights.

Secondly, the most considerable challenge of this research project was the collection of reliable data. Since eSports is a novel and emerging industry, no individual industry classification exists. Consequently, collecting the data required manual effort: Unlike renowned entry mode studies, in which deals are filtered by e.g., a SIC or NAICS standard code, this study examines a sample (for the treatment group) of partially automated or manually selected deals (see methods section for details). In the case of the automated search query (particularly for the control group), the reliability of the databases was assumed, as cross-checks were only performed at random (Villalonga & McGahan, 2005). In the case of manual data collection, it may have happened that several deals remain undiscovered. This may result in a selection bias and an unsystematic measurement error of the dependent variable, as some firms that have partaken in eSports might accidentally not be considered correctly due to a lack of publicly available information. Not accounting for long-term contracts (which may be common practice, e.g., 10-year sponsorship contracts with sports firms) increases this effect. However, the results do not correlate with the residuals of the models. Also, it is assumed that such errors occur at random and are thus not of much concern.

Thirdly, a list of moderating effects and a vector of control variables were selected based on strategy literature for the aim of this study. However, due to resource constraints and difficulties in data collection, various variables outlined as relevant in various papers were not considered. An exemplifying list of some of these variables is shown in the method section of this paper. One particular issue is not controlling for previous experience in each subsequent

entry mode, which would have illuminated whether chosen entry modes deviate in the presence of a nascent industry. Not incorporating these variables may lead to an omitted variable bias, and further research with more resources may overcome this issue. Since several values for the independent variables were added to the sample by hand, an unsystematic measurement error might have occurred at this point, too.

Fourthly, there are various challenges regarding the use of logistic regression models. Hoetker (2007) analyzed that from all published papers using logit or probit models in leading strategy journals, one third provided wrong interpretations, and above 50% failed to depict interaction effects correctly. It was intended to tackle the most common issues and mistakes made, but misinterpretation may still exist. In particular, coefficient and interaction term interpretation were made in line with Hoetker (2007) and Wiersema and Bowen (2009). Nevertheless, this research does not work around the cross-group comparison issue, as it was assumed that the unobserved variation of treatment and control group were identical (which may be challenging to prove). Consequently, all coefficient interpretations must be considered with caution due to the non-linear nature.

Lastly, there is evidence, but no proof that the findings are generalizable to other nascent industries. As outlined, eSports fulfills numerous criteria of nascent industries. The nature of the traditional sports industry and the emerging counterpart suggest that findings may hold for industries with similar structures. Yet, further research must be used to test this and to challenge the results of this study in other nascent contexts. The method and model proposed can potentially be used for similar studies with other environments.

In general terms, this thesis calls for additional research in the area of nascent industries. Scholz (2019) outlines that buzzwords like e.g., 'Blockchain', 'FinTech's', surround and (partially) overtake the current and future business environment, but knowledge on strategy-related concerns regarding these areas remains scarce. Since incumbents are forced to acknowledge and react to these trends, it is of utmost importance to understand the particularities of nascent industries in both practical and theoretical terms. This research shows that – even though challenging –quantifying insights is possible despite the lack of industry classifiers, providing a base for future works.

Various fields of corporate strategy remain undiscovered by the scope of this thesis but may be of strategists' interest: This thesis only observes if an eSports entry took place without further investigating the details of a deal. As such, it would be interesting to analyze the motives, potential synergy gains, and performance implications of deals and to compare them to a non-nascent control group. Also, the timing of deals might be of importance, hypothesizing that nascent industry entry becomes a frequent practice, and one could perform a factor analysis with the timing of entry. There might also be differences concerning the duration of a business relationship between nascent industries and traditional industries. Another future direction of research might be to look into the dyadic relationship between acquirer and target rather than only the acquirer's point of view (Wang & Zajac, 2007).

Finally, an exciting future research topic is the exploration of numerous other entry modes when entering nascent industries. The literature review indicates that other entry modes exist and may be used in nascent industries. A multinomial logistic regression with all entry modes as dependent variables would be a statistical matching method. Overall, intertwining nascent industries and strategy may be a research area with a high future impact.

7. Conclusion

This paper investigates whether corporations' entry mode choices are affected by the presence of a nascent industry. In particular, it was the purpose of this research to test whether the probability of choosing an acquisition (versus a non-equity alliance) differs between nascent and non-nascent industries. Most studies on entry mode choice focus on established industry structures or cross-border contexts, neglecting the option of nascent industry expansion. The presence of simultaneous high uncertainty levels and an immense, exponential growth constitute a challenge for researchers and managers when formulating the optimal governance structure. This paper thus questioned whether proven fundamental mechanisms regarding governance choice change when expanding into nascent industries.

The eSports landscape serves as an empirical context for emerging industries due to its sizeable financial growth figures, high uncertainty levels, and interesting resources and capabilities, fulfilling numerous relevant criteria of nascent industries. It is compared to its established counterpart, the traditional sports business. Two modes of inorganic growth, acquisitions, and non-equity alliances, were contrasted and put into perspective of nascent industry entry, underlining the difficulty to find a matching governance mode.

Due to the absence of industry classifications for nascent industries, collecting a reliable sample matching the research design of this study was challenging. Using leading deal databases (SDC and Zephyr) as a starting point, this thesis overcomes this critical methodological issue by a fine-grained, manual data collection, also providing a research design that may be used for further studies in strategy research. Five logistic regression models were created, showing the stand-alone main effect of nascent industry entry and testing the boundaries of this effect in the presence of two moderators on acquisition probability. All models control for other factors.

Even though exact coefficient interpretation must be considered with caution in logit models, it becomes evident that entering nascent industries has a significant negative effect on acquisition probability (thus positive on non-equity alliance probability). Moderating this relationship with acquirer-target relatedness (in terms of industry codes) and diversification level of acquirers weakens the relationship further: Industry relatedness and diversification level both have a negative impact on the effect of nascent industries on acquisition probability.

Among others, the challenging assessment of fair acquisition prices due to the enhanced uncertainty, the potential impact of other entry modes such as internal development, and the need for legitimacy building are identified as reasons for the occurred effects and non-equity alliance preference.

The results suggest that nascent industries have developed their own mechanisms, and that acquirers seem to adapt their entry mode decisions accordingly. In specific, this study provides evidence that firms prefer non-equity alliances over acquisitions in nascent industry expansions, and that this effect persists and becomes even stronger when moderating it with acquisition-stimulating variables like acquirer-target relatedness or diversification level. Consequently, this study adds to the stream of corporate strategy literature while simultaneously calling for additional research in the novel context of nascent industries.

Numerous managerial implications conclude from these findings, from the importance of corporate diversification in novel areas, over the opportunity to conform with other firms to build legitimacy to an in-depth understanding of nascent environments.

From a meta-perspective, the increasing impact of nascent industries challenges incumbents of established industries today and tomorrow. It is of high relevance to gain further insights on the particularities of such industries, theoretically, to grasp all mechanisms at play, and practically, for managers to formulate better strategic decisions. Finally, one cannot neglect that human error, perceptual biases, and a degree of randomness, will always influence the individual decisions of managers in their attempt of winning tomorrow today.

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Appendix

Appendix 1: eSports industry

The empirical context chosen for the scope of this research project is the eSports industry. Porter (2008) proposes that an entry mode choice and the inherent strategy can only be successful if the industry structure is well understood. Therefore, this section of the report shall illuminate the eSports industry by (1) grasping what eSports entails and explaining its popularity, (2) understanding its unique ecosystem, and by lastly (3) outlining existing findings on corporates' particular interests of entering derived from the (limited) body of academic literature published. Ultimately, this section shall underline that the eSports context is emerging and thus a relevant industry to choose to seek answer to the research question posed.

Industry Evolution

"eSports will be the biggest sport in the world, much bigger than anything else. Even bigger than soccer."
- Bracken Darrell, CEO of Logitech

Even though it is questionable whether forecasts such as the one of Logitech's CEO Bracken Darrell (Schwär, 2018) will become reality one day, it is undoubtful that the eSports industry enjoys unprecedented media and public attention. eSports (also referred to as 'e-Sports' or 'esports') is a composition of 'electronic' and 'sports' and can be summarized as competitive video gaming (Freeman & Wohin, 2017). While certain elements majorly overlap with traditional sports (such as teamwork, training, tournaments, mastering skills, need for professional equipment, etc.), the unique difference is the predominant usage of information technology (Wagner, 2006). Consequently, there is an on-going discussion on the legitimacy of eSports as 'sports' in the traditional sense, peaking in 2018 when the Olympic Committee publicly debated on making eSports an Olympic discipline (Webb, 2019). While viewership count might have entitled such claims, it must be mentioned that eSports serves an umbrella term for various video game titles (e.g. League of Legends, Dota II, Overwatch, Fortnite, FIFA, etc.) played competitively, often with a finite lifecycle (Scholz, 2019), thus, making such move unrealistic in the near future. Nevertheless, it is visible that traditional sports clubs such as European football clubs Paris Saint-Germain, Schalke 04 or Besiktas Istanbul or NBA teams like Houston Rockets start recognizing eSports as their competitive battlefield of the future. Such attention shows the traction the industry is gaining, with growth figures supporting eSports to be more than just a hype: According to various industry reports of e.g. Forbes, Statista or Thomson Reuters, the global revenue exceeded 1 billion USD for the first time in

2019 and will further increase at growth rates of around 20-30% per annum in the next five years (Ayles, 2019; Gough, 2019; Russ, 2019).

Predominating countries are the USA, China, and South Korea with investments mostly coming from brands through advertisements, but also merchandise and ticket sales (Russ, 2019). These numbers translate into a global viewership of 201 million frequent viewers and 253 million occasional ones, with a peak in simultaneous audience at the League of Legends Worlds finals in 2018 at 100 million individual viewers, surpassing viewership of prestigious events like the Superbowl of American Football (Pei, 2019). Player and fan bases are with 18-34 years characterizable as rather young in comparison to traditional sports (Nielsen, 2017). As pointed out by eSports researchers Sjöblom & Hamari (2016 and in a similar study in 2017), watching eSports fulfils four out of five 'Uses and Gratification needs' (study on the motives of media consumption by West & Turner, 2010): The audience's cognitive (improving skills and acquiring knowledge), affective (emotional experience), social integrative (enhancing connections), and tension release (escaping) needs are satisfied simultaneously (Sjöblom & Hamari, 2016).

Overall, even though the accuracy for the above-named figures and estimates are questioned by scholars like Hetsroni & Tukachinsky (2006), the overview indicates the momentum the industry has gained throughout the last years.

Contextual Features

To further understand how this momentum was gained and how the industry managed to receive attention of non-endemic firms like Mercedes Benz, Mastercard or DHL, the particularities of the eSports industry must be understood - which is challenging, as there is no full consensus on such understanding within the industry itself. Yet, in an attempt to illuminate the ecosystem, Scholz (2019) four 'unwritten governing principles' dominating the scene since its uprising.

Firstly, any new title that extraordinarily succeeds under the eSports umbrella (like e.g. the recent rise of Fortnite and other Battle Royal games) is *'easy to learn, but hard to master'*, meaning that new players can get familiar with a new game quickly, but that the learning curve grows only slowly the more time invested (Scholz, 2019). The concept can be adopted to businesses entering the landscape, too: Entry barriers to partake in a top tier eSports league are

low, requiring investments of only 10 million USD in League of Legends or 20 million USD in Overwatch (Stern, 2019), yet many entrants fail as they are not able to 'master' the particularities of the landscape and exit again (e.g. Paris Saint-German withdrawing its primary competitive team (PSG, 2017)).

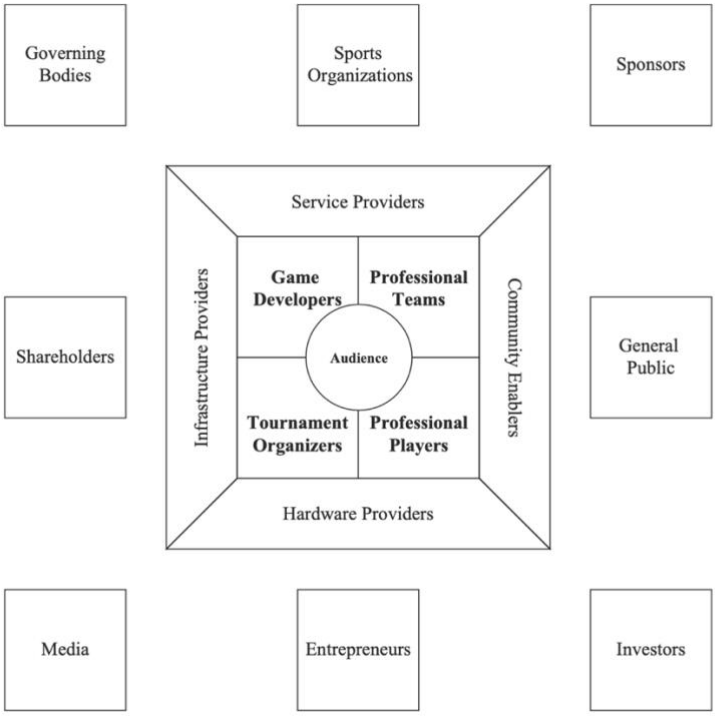
Secondly, Scholz (2019) frames the constant changes and high degrees of uncertainty as *'shifting metagame'*, which can again be applied to both, the game itself and the businesses partaking: Game developers are in need of constantly adapting some parts of the game through updates, patches, and new content creation in order to balance the game and bind users to a title for the longest time possible, resulting in an on-going requirement for creative strategy shifts by successful athletes and teams. Also firms must cope with this strategic uncertainty (Allaire & Firsirotu, 1987). New potential eSports titles appear almost on daily basis and an eSports organization must find good timings to either include or divest a game and must thus set up diversified portfolios for risk mitigation.

Thirdly, due to a lack of governing bodies and regulations in the overall industry, many refer to it as *'Wild West'*, self-governed, self-organized and with (seemingly) unlimited opportunities (Anderson & Hill, 2004). Other than traditional sports, in which federations control and limit individuals' options, the eSports landscape enjoys a freedom of choice (that self-governs unitedly on a case-to-case basis, e.g. on a doping debate (Baldwin, 2019)) and can be characterized as highly volatile. Implying a business perspective, the whole industry could be compared to a start-up mentality, with low regulations, limited structure, lean processes and a need for agility and dynamic capabilities to sustain competitive advantages (Scholz, 2019).

Lastly, the eSports industry is in reverse to most traditional ones, as it was *'born digital, global, and agile'* (Scholz, 2019). Not only is the use of newest digital solutions a perquisite, game developers either incorporate or build innovation themselves. Also, a global mindset is inherent with eSports, with cross-cultural teams, often interacting virtually among themselves and competing against other teams worldwide (Chakraborty & Norcio, 2009). Many firms seek to integrate these exact aspects in their corporate and business strategies, seeking to expand internationally, exploit digital solutions and enable teams to be agile (Matt *et al.*, 2015), while eSports intends to become less global through e.g. hosting local tournaments.

Overall, these four propositions indicate the particularities of the competitive landscape and shape an environment in which all actors are highly intertwined to increase the impact of the eSports industry. Due to this interrelation between market players, to fully grasp the phenomena of the industry, particularly under the aspect of entry mode choices for firms, it is not sufficient to solely propose the main actors performing primary activities in the value chain (Scholz, 2019), but rather to conduct a stakeholder analysis. Consequently, in accordance to Freeman (1984), the main actors relevant to this research project are shortly introduced and categorized as primary and secondary stakeholders.

Figure 8: Stakeholders in the eSports industry



The following table provides a compromised view of the four most crucial stakeholders engaged in primary activities of the value chain:

Table 5: Detailed list of eSports stakeholders

Stakeholder	Description	Example
Game Developers	Create and maintain eSports titles, own intellectual property rights, can update games freely, crucial enablers of a title's success	Activision Blizzard, Tencent, Valve

Tournament Organizers	Organize online and offline tournaments, often in close contact with game developers, crucial to build a hype around a title	ESL, OGN
Professional Teams	Contract players and create teams and surrounding, with training facilities, coaches, etc., create brands around the organization	Fnatic, SK Gaming, SK Telekom 1, 100 Thieves, H2K
Professional Players	Specialize their talent on one particular title, compete often in cross-cultural teams against each other, often peaking in very young age	Faker, Bjergsen, KuroKy, Bugha
Providers and Communities	Provide support activities to the scene, including streaming services, hardware equipment, journalistic coverage, agencies	Logitech, Twitch, Azubu, ESPN, Razer, HyperX, SteelSeries
Governing Bodies	Intend to increase structure in the industry, but are only partially accepted as eSports is an umbrella for various titles	International e-Sports Federation, World Esports Association
Sports Organizations	Invest into digital sports by own eSports teams, often for branding, marketing and internationalization purposes	FC Schalke 04, Olympique Lyon, New England Patriots, Houston Rockets
Sponsors	Support eSports organizations financially or with other cooperation to strengthen their brands and grow into new markets	Mercedes-Benz, Sennheiser, Nike, DHL, Intel, Logitech, Nvidia
General Public	Impacts the general perception of eSports and has hindered its success in the past through subjective assumptions (e.g. all video game players are ‘nerds’ or dangerous)	
Investors, Entrepreneurs, Media, and Shareholders	Invest in the industry due to its quick growth by acquiring teams or infrastructure providers and (often) expect short-term returns	MTG, TBS, ProSiebenSat. 1, Tencent, Rick Fox, venture capital groups

As indicated in the table above, game developers, tournament organizers, professional teams, players, and also providers and communities can be characterized as primary stakeholders and are also involved with primary activities of the value chain. Thus, these activities' goal is to create value and actively generate revenue streams through advertisement contracts with sponsors, sales of own merchandise, ticket sales, prize pools of tournaments (Ströh, 2017).

Governing bodies, sponsors, general public, investors, entrepreneurs, media, and shareholders on the other hand are all classified as secondary stakeholders that have an increasing impact on the eSports industry as a whole as they are the main reason for major cash inflows (Ströh, 2017).

Particularly the primary stakeholders, but also increasingly the secondary ones seek to enforce the overall industry by acting jointly following the principles of coopetition (collaborating and competing at the same time), co-destiny (sharing the same vision and sacrificing short-term gains for the greater good) and convergence (becoming more similar over time) (Scholz, 2019). The ultimate and joint goal is to reach, attain, and increase viewership count, as this is a way to monetize the efforts, and it is the predominant business model of the overall industry (Pesa *et. al*, 2017). Ever since streaming platforms like twitch.tv implemented enhanced statistics, successes are measurable and thus make it easier for primary stakeholders to attract external sponsors and close deals (Zhdanov, 2017). Yet, solely relying on one main revenue stream through sponsoring might bear the risk of external dependency, and various industry experts highlight the need for additional endogenous income sources. As such, despite of optimistic trend reports of numerous consulting firms and experts, it remains difficult to predict the future success of eSports and whether existing players and incoming, often non-endemic firms can master the challenges and risks associated with the unique ecosystem (Scholz, 2019).

Market Entry

Independent of choosing a resource-based or any other view, the strategic decision of entering a new business must lead to some sort of corporate advantage (as outlined in section 2.1.). Even though the predominant business model of the eSports ecosystem is monetizing

viewership, firms may have other motives to enter the nascent industry based on their backgrounds and particular corporate needs.

Market entrant	Motive	Example
Tech firms	Innovating existing products, leveraging and enhancing image	Sennheiser, Intel, Logitech, Nvidia, Amazon
Media companies	Exploiting resources and creating synergies	Amazon, ESPN
Sports organizations	Using existing knowledge to become successful in a new area, addressing younger audiences	FC Schalke 04, Olympique Lyon, New England Patriots, Houston Rockets
Individual investors	Monetizing the quick growth, self-fulfillment	Rick Fox
Other non-endemic corporations	Strengthening brand awareness and increasing reach to new audiences, also mix of the other motives above	Mercedes-Benz, Nike, DHL

Table 6: Main groups of market entrants and motive (derived from Scholz, 2019)

The table above summarizes the most common market entrants and their respective motives, also providing initial evidence which entry mode may be preferred by each firm background. Similar to other traditional sports, eSports has gained sufficient momentum to attract non-endemic and seemingly unrelated sponsors, too (Hiltscher & Scholz, 2019).

However, various studies also prove that entering eSports may not be a match for any company. As such, even endemic tech brands like headphone producer Sennheiser may fail to establish themselves convincingly in the market, while e.g. only partially related beverage companies enjoy higher brand perception (Sponsors, 2018). And even extremely unrelated companies like German insurance firm Wüstenrot, car producer Mercedes Benz or logistics company DHL start to partake in the market, ranging from poor to mediocre viewer brand perception (Sponsors, 2018). Interestingly, the entry mode itself varies among these companies: While most initial investors see their chance to enter eSports by sponsorship deals (non-equity

alliances), other (also non-endemic) firms like Mercedes Benz acquired existing eSports teams or built up such strategic business unit themselves (e.g. FC Schalke 04).

Overall, it becomes evident that many MNEs consider an appearance in the eSports landscape, and that some initial findings regarding entrants' motivation and industry attractiveness can be derived from literature, but simultaneously there is no clear pattern of entry mode choice recognizable on first sight.

Appendix 2 – Variable Selection

This section entails all the variables that are included in the final sample. Some of the variables were not used in the models but are still listed here. Likewise, the R-Code uses different names than the main body. A transition and legend can be found in the table below.

Table 7: Overview of all variables

Variable Name	Variable Name in Code	Description	Creation/ Sources
Size: Total Assets (million USD)	Total_Assets	Total assets of acquiror	Original data generated by Zephyr and/or SDC export
Revenue in M USD	Revenue	Revenue of acquiror	Original data generated by Zephyr and/or SDC export
Number of Subsidiaries	No_Subsidiaries	Subsidiaries of acquiror	Original data generated by Zephyr and/or SDC export
Total Assets (natural log)	Log_Total_Assets	Logarithmic function of acuqiror's total assets	Excel's LOG-function of total assets
Firm Performance: EBIT divided by Total Assets (Return on Total Assets)	Firm_Performance	Acquiror's return on assets	EBIT divided by total assets
Public Dummy: 1 = publicly listed, 0 = otherwise	Is_Public	Dummy of company status, with {public=1; private=0}	Excel's IF-function based on Company Status
Diversification Level: Number of four-digit SIC-codes under one	Diversification_Lvl	Sum of industry codes under an acquiror's umbrella	Excel's SEARCH- and SUM -functions + manual data entry from ORBIS

corporate umbrella			
Related Dummy: 1 = acquiror-target relatedness at two-digit SIC-code, 0 = otherwise	Is_Related	Dummy of relationship between target and acquiror, with {Related=1; unrelated=0}	Excel's LEFT- and IF-functions based on US SIC two-digit primary industry code. Takes value of 1 if target operates in 73, 79, or 39
Nascent Dummy: 1 = target's industry is eSports, 0 = target's industry is sports	Is_eSports	Dummy of the target's industry, with {eSports=1; traditional sports=0}	Manually coded data based on the data source (eSports exports vs. Sports exports)
Diversification Level x Nascent	eSports*Diversity	Interaction term of Is_eSports and Diversification_Lvl	Is_eSports multiplied by Diversification_Lvl
Related x Nascent	eSports*Related	Interaction term of Is_eSports and Is_Related	Is_eSports multiplied by Is_related
Entry Mode: 1 = acquisition, 0 = non-equity alliance	Is_Aquisition	Dummy of final deal type, with {acquisition=1; non-equity alliance=0}	Excel's IF-function based on final deal type
/	Deal Number	Identifier of either original Zephyr number of internally created TR number	Original data generated by Zephyr and/or SDC export
/	EBIT	EBIT of acquiror	Original data generated by Zephyr and/or SDC export

/	Company Status	Acquiror's legal form (public or private)	Original data generated by Zephyr and/or SDC export
/	US SIC Primary Industry Code	Acquiror's primary industry code in SIC format	Original data generated by Zephyr and/or SDC export
/	FoundingYear	Acquiror's founding year	Original data generated by Zephyr and/or SDC export
/	Final Deal Type	Deal type (acquisition or non-equity alliance)	Data based on the data source (Zephyr=acquisition, SDC=NEA)
/	LOG_REV	Logarithmic function of acuqiror's revenue	Excel's LOG-function of revenue
/	IS_NEA	Dummy of final deal type, with {non-equity alliance=1; aquisition=0}	Excel's IF-function based on final deal type

Appendix 3 – Search Strategy

This section shows the original search queries in Bureau van Dijk's Zephyr and Thomson Reuters SDC.

Figure 9: Search strategy "Nascent acquisitions" (Zephyr)

Product name	**Zephyr**		
Update number	**30**		
Software version	**30.0**		
Data update	**12/04/2020 (n° 30237451)**		
Username	**Fundacao Getulio Vargas-2144**		
Export date	**13/04/2020**		
Cut off date	**31/03**		
		Step result	**Search result**
1.	**Deal type: Acquisition, Joint-venture**	**780,187**	**780,187**
2.	**Business description, english trade description, overview, industry descriptions, deal comments, deal rationale: AnyWords("eSports" , "e-sports" , "competitive gaming" , "electronic sports" , "video game professional" , "video game competition" , "video game streaming" , "video game event" , "video game team" , "electronic team") (Target OR Vendor)**	**617**	**165**
3.	**Current deal status: Completed**	**1,797,728**	**134**
	Boolean search : 1 And 2 And 3		
		TOTAL	**134**

Figure 10: Search strategy "Nascent non-equity alliances" (SDC)

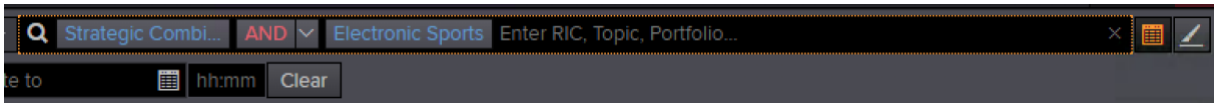
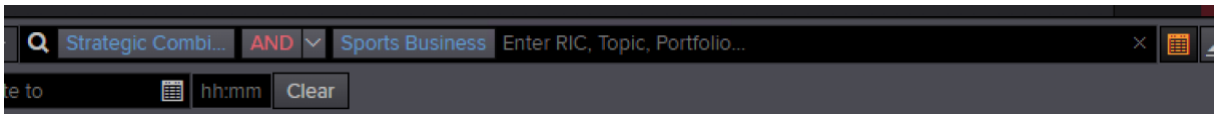


Figure 11: Search strategy "Non-nascent acquisitions" (Zephyr)

Product name	**Zephyr**		
Update number	**30**		
Software version	**30.0**		
Data update	**25/04/2020 (n° 30238065)**		
Username	**Fundacao Getulio Vargas-2248**		
Export date	**26/04/2020**		
Cut off date	**31/03**		
		Step result	**Search result**
1.	**US SIC (primary codes): 3949 - Sporting and athletic goods, not elsewhere specified, 794 - Commercial sports, 7941 - Professional sports clubs and promoters, 7997 - Membership sports and recreation clubs (Target)**	**7,968**	**7,968**
2.	**Current deal status: Completed**	**1,744,348**	**5,794**
3.	**Listed/Unlisted/Delisted companies: listed acquiror**	**358,020**	**761**
4.	**Time period: 2015 - Until current date (rumoured, completed-confirmed, completed-assumed, announced)**	**777,281**	**398**
5.	**Deal type: Acquisition, Joint-venture, Merger**	**794,305**	**272**
	Boolean search : 1 And 2 And 3 And 4 And 5		
		TOTAL	**272**

Figure 12: Search strategy "Non-nascent non-equity alliances" (SDC)



Appendix 4 – Additional Information Regarding Other Statistical Models

Table 8: R outcome for comparison between OLS, logistic and probit models

	Dependent variable:		
	Is_Aquisition		
	OLS	logistic	probit
	(1)	(2)	(3)
Log_Total_Assets	-0.191***	-1.193***	-0.677***
	(0.014)	(0.122)	(0.064)
Firm_Performance	-0.006	-0.024	-0.010
	(0.009)	(0.079)	(0.040)
Is_Public	-0.039	-0.317	-0.167
	(0.061)	(0.411)	(0.236)
No_Subsidiaries	0.0001	0.0004	0.0002
	(0.0001)	(0.0004)	(0.0002)
Diversification_Lvl	0.035***	0.274***	0.166***
	(0.007)	(0.065)	(0.038)
Is_Related	0.133***	0.901***	0.512***
	(0.042)	(0.277)	(0.160)
Years	-0.0002	-0.001	-0.001
	(0.001)	(0.005)	(0.003)
Is_eSports	0.028	0.424	0.295
	(0.084)	(0.603)	(0.345)
Diversification_Lvl:Is_eSports	-0.043*	-0.409**	-0.245**
	(0.022)	(0.188)	(0.105)
Is_Related:Is_eSports	-0.201**	-1.369**	-0.845**
	(0.089)	(0.606)	(0.350)
Constant	0.995***	3.014***	1.678***
	(0.073)	(0.544)	(0.303)
Observations	520	520	520
R2	0.395		
Adjusted R2	0.383		
Log Likelihood		-233.665	-234.334
Akaike Inf. Crit.		489.329	490.669
Note:	*p<0.1;	**p<0.05;	***p<0.01

Figure 13: Plot of residuals for linear models

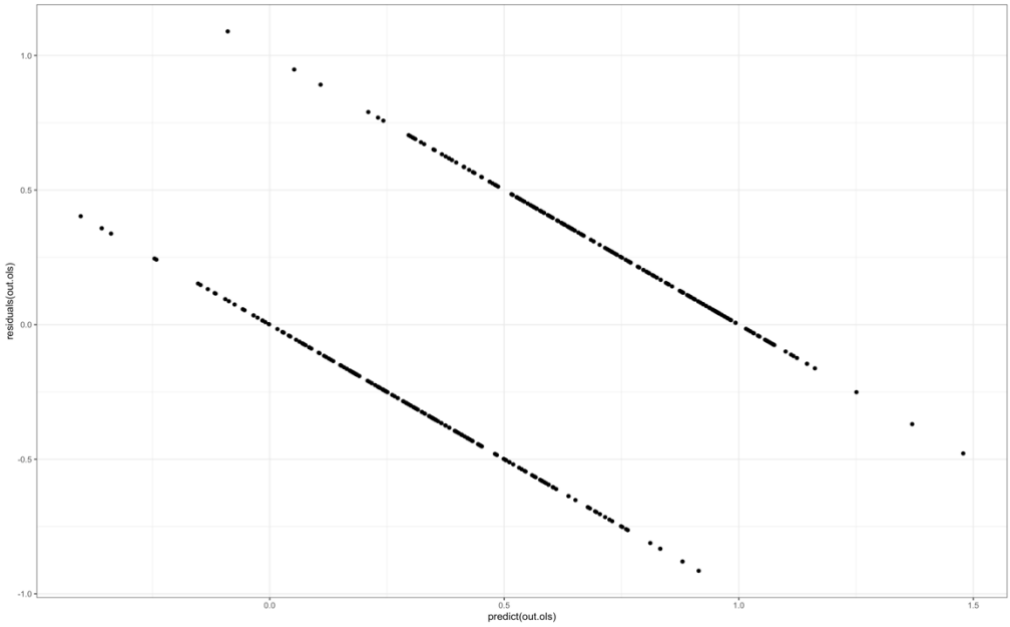
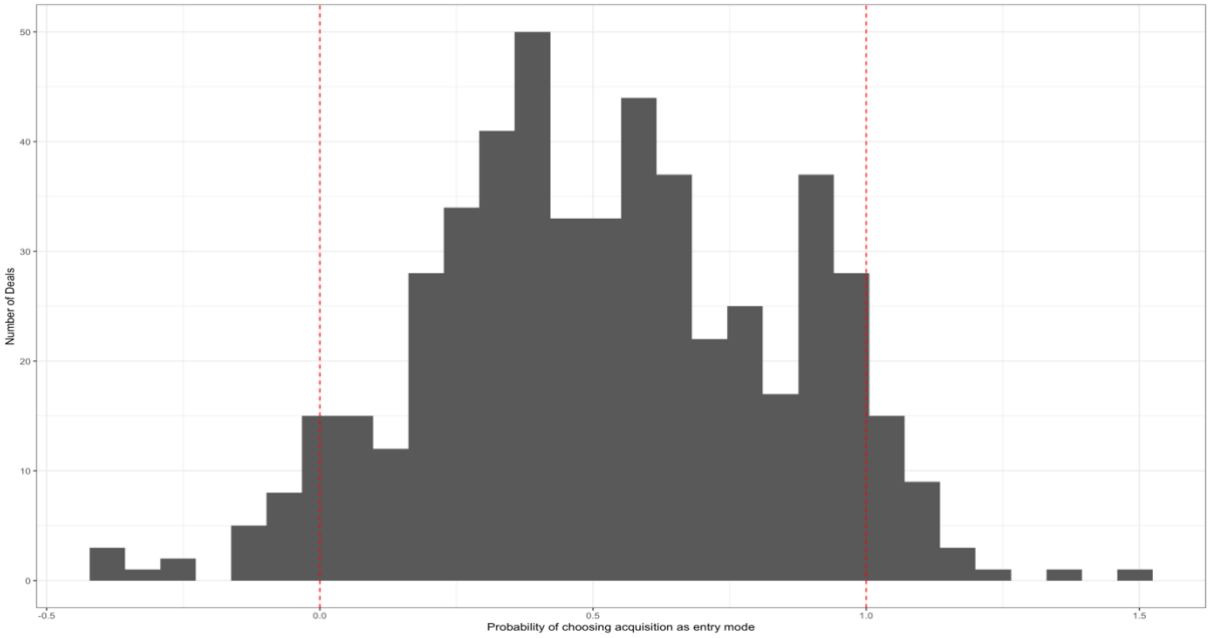


Figure 14: Predicted probabilities under linear relationship assumption



Appendix 5 – Additional Information Regarding Final Statistical Model

Table 9: R outcome for comparison between models 1-5

	Dependent variable:				
	Is_Aquisition				
	(1)	(2)	(3)	(4)	(5)
Log_Total_Assets	-1.206***	-1.201***	-1.208***	-1.185***	-1.193***
	(0.119)	(0.120)	(0.122)	(0.120)	(0.122)
Firm_Performance	-0.019	-0.036	-0.032	-0.032	-0.024
	(0.075)	(0.079)	(0.079)	(0.079)	(0.079)
Is_Public	0.089	-0.295	-0.362	-0.246	-0.317
	(0.374)	(0.407)	(0.410)	(0.408)	(0.411)
No_Subsidiaries	0.001	0.0005	0.0005	0.0004	0.0004
	(0.0004)	(0.0004)	(0.0004)	(0.0004)	(0.0004)
Diversification_Lvl	0.246***	0.222***	0.226***	0.253***	0.274***
	(0.058)	(0.059)	(0.059)	(0.063)	(0.065)
Is_Related	0.671***	0.632***	0.836***	0.616**	0.901***
	(0.240)	(0.243)	(0.275)	(0.244)	(0.277)
Years	-0.001	-0.001	-0.0002	-0.002	-0.001
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Is_eSports		-1.024***	-0.634*	-0.391	0.424
		(0.305)	(0.378)	(0.494)	(0.603)
Is_Related:Is_eSports			-0.959*		-1.369**
			(0.577)		(0.606)
Diversification_Lvl:Is_eSports				-0.298	-0.409**
				(0.189)	(0.188)
Constant	2.625***	3.248***	3.229***	3.101***	3.014***
	(0.471)	(0.535)	(0.536)	(0.543)	(0.544)
Observations	520	520	520	520	520
Log Likelihood	-243.542	-237.603	-236.217	-236.226	-233.665
Akaike Inf. Crit.	503.084	493.206	492.434	492.453	489.329
Note:					*p<0.1; **p<0.05; ***p<0.01

Figure 15: Outcome of VIF-Test for variables of final model

```
   Log_Total_Assets    Firm_Performance           Is_Public     No_Subsidiaries
           1.936083           1.391712            1.128214            1.397956
Diversification_Lvl         Is_Related       FoundingYear         Is_eSports
           1.381179           1.143408            1.037035            1.189876
```

Figure 16: Average Partial Effect Calculation 1 – Model (2)

```
Marginal Effects:
                        dF/dx   Std. Err.       z     P>|z|
Log_Total_Assets    -1.7889e-01  2.6896e-02 -6.6511  2.91e-11 ***
Firm_Performance    -5.4035e-03  1.1804e-02 -0.4578 0.6471265
Is_Public           -4.4057e-02  6.0769e-02 -0.7250 0.4684554
No_Subsidiaries      7.0959e-05  5.5996e-05  1.2672 0.2050769
Diversification_Lvl  3.3050e-02  9.5173e-03  3.4726 0.0005155 ***
Is_Related           9.6699e-02  3.7509e-02  2.5780 0.0099377 **
Years               -8.9778e-05  6.8976e-04 -0.1302 0.8964413
Is_eSports          -1.5311e-01  4.4032e-02 -3.4773 0.0005065 ***
---
Signif. codes:  0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1

dF/dx is for discrete change for the following variables:

[1] "Is_Public"  "Is_Related" "Is_eSports"
```

Figure 17: Average Partial Effect Calculation 2 – Model (5)

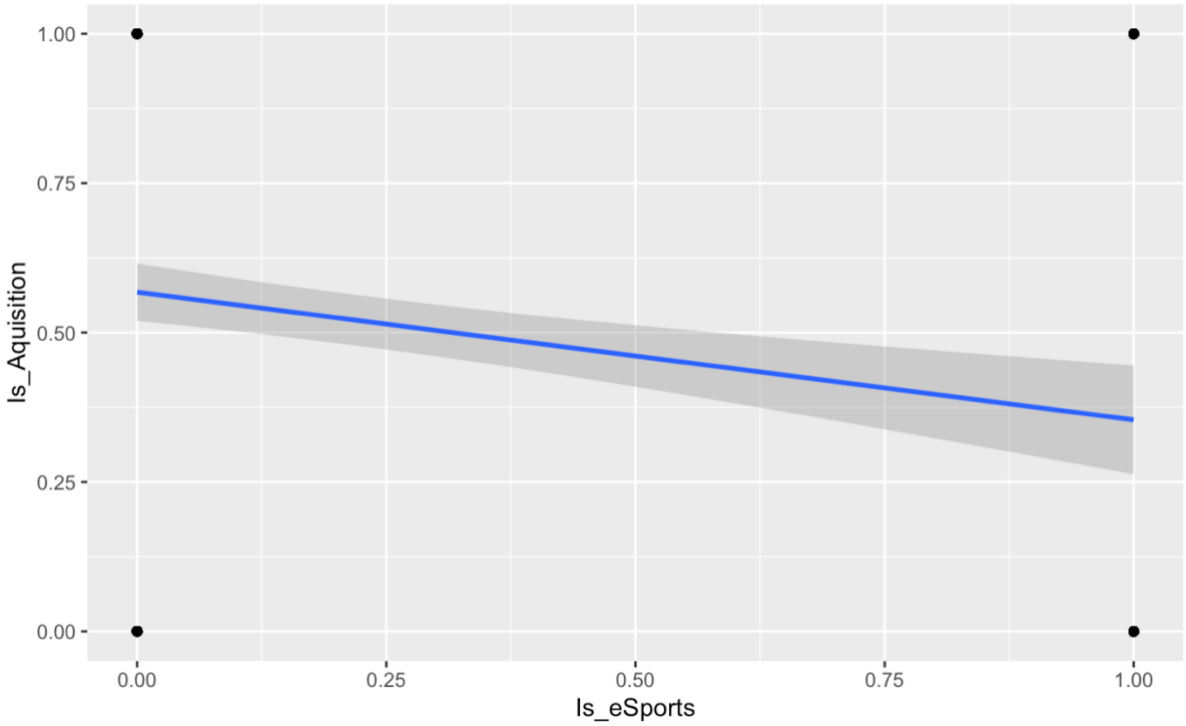
```
Marginal Effects:
                                     dF/dx   Std. Err.       z     P>|z|
Log_Total_Assets                -1.7461e-01  2.6583e-02 -6.5684 5.085e-11 ***
Firm_Performance                -3.5535e-03  1.1515e-02 -0.3086 0.7576187
Is_Public                       -4.6500e-02  6.0140e-02 -0.7732 0.4394008
No_Subsidiaries                  5.6017e-05  5.7151e-05  0.9802 0.3270116
Diversification_Lvl              4.0062e-02  1.0574e-02  3.7889 0.0001513 ***
Is_Related                       1.3608e-01  4.1852e-02  3.2515 0.0011479 **
Years                           -1.9644e-04  7.0169e-04 -0.2800 0.7795101
Is_eSports                       6.1101e-02  8.5203e-02  0.7171 0.4733004
Diversification_Lvl:Is_eSports -5.9881e-02  2.8319e-02 -2.1146 0.0344679 *
Is_Related:Is_eSports          -1.9389e-01  7.9750e-02 -2.4312 0.0150502 *
---
Signif. codes:  0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1

dF/dx is for discrete change for the following variables:

[1] "Is_Public"             "Is_Related"            "Is_eSports"            "Is_Related:Is_eSports"
```

Appendix 6 – Graphical Presentation of Main Relationship

Figure 18: Linear relationship between nascent dummy and acquisition as entry mode



Appendix 7 – Three-Way-Interaction Model

Table 10: R outcome for additional interaction check between firm size, eSports entry and (un-) relatedness

	Dependent variable:	
	Is_Aquisition	
	(1)	(2)
Log_Total_Assets	-1.541***	-1.118***
	(0.163)	(0.185)
Firm_Performance	1.680***	1.490***
	(0.514)	(0.515)
Is_Public	-0.103	-0.118
	(0.410)	(0.408)
No_Subsidiaries	0.001*	0.001**
	(0.0004)	(0.0004)
Diversification_Lvl	0.316***	0.357***
	(0.070)	(0.077)
Is_Related	0.942***	
	(0.301)	
Is_Unrelated		2.096**
		(0.946)
FoundingYear	0.003	0.003
	(0.003)	(0.003)
Is_eSports	-0.964	-0.769
	(0.849)	(0.970)
Diversification_Lvl:Is_eSports	-0.505***	-0.543***
	(0.176)	(0.183)
Is_Related:Is_eSports	-1.069*	
	(0.577)	
Log_Total_Assets:Is_eSports	0.600**	0.228
	(0.239)	(0.321)
Is_Unrelated:Is_eSports		-1.828
		(1.387)
Log_Total_Assets:Is_Unrelated		-0.967***
		(0.286)
Log_Total_Assets:Is_Unrelated:Is_eSports		0.910**
		(0.458)
Constant	-1.561	-1.942
	(6.775)	(7.062)
Observations	520	520
Log Likelihood	-219.604	-213.339
Akaike Inf. Crit.	463.209	454.677
Note:	*p<0.1; **p<0.05; ***p<0.01	