# Why Home and Host Country Context Matters More Than (Cultural) Distance: An Empirical Study


## ABSTRACT

In this perspective paper we challenge the explanatory power of one of the primary concepts in International Business (IB): the concept of distance. Although in our study we focus on cultural distance and its alleged ability to explain entry mode choice, we hold that our conclusions are equally valid for other distance concepts (such as institutional distance) and further beyond entry mode choice (such as headquarters-subsidiary relations). This paper is part of a project which is based on two pillars: a comprehensive analysis of prior studies which employed the concept of cultural distance in the context of entry mode choice, and a large scale empirical investigation in over 800 subsidiaries of MNCs, covering nine host and fifteen home countries. In this paper we report the findings of our empirical investigation. Our findings suggest that the explanatory power of the distance concept is highly limited once home and host country effects are accounted for. Based on our results, we propose that entry mode studies in particular and IB research in general should reconsider its fixation with distance measures and, instead, focus their attention on context, particularly home and host country. In addition, we argue that the reason why the cultural distance concept became institutionalised might well lay in problems with broader IB research practices. More specifically, we identified the following five problematic research practices: (1) a preference for convenience over context, (2) a reliance on secondary data over primary research, (3) a theory 'fetish' that displaced sense-making of empirical phenomena, (4) the imitation of strategy research, and (5) the 'obsession' with static classifications on the basis of national cultural values. Based on these reflections we conclude with a series of recommendations for the practice of future IB research.



Refer to as:

- Harzing, A.W.; Pudelko (2014) **Why home and host country context matters more than (Cultural) Distance: An empirical study**, *paper presented at the 71st Academy of Management annual meeting*, August 1-5, in Philadelphia, Pennsylvania, USA.

## INTRODUCTION

In this article we argue that the ill-advised fixation on the explanatory power of the concept of (cultural) distance and the simultaneous neglect of host and home country context has led the field of IB astray. The fascination of IB researchers with the distance concept can hardly be overstated. Shenkar (2001: 519) affirms "Few constructs have gained broader acceptance in the international business literature than cultural distance." Salk (2012: 28-29) asserts: "CD is the de facto definition of culture as taught in many IB PhD programs, and it is by far the most commonly encountered construct and measure of culture in top journals." Previous contributions have already espoused the many limitations of the (cultural) distance concept (see, for example, Shenkar, 2001; Harzing, 2003; Tung & Verbeke, 2010; Franke, Hill, Ramsey & Richey 2011; Zaheer, Schomaker & Nachum, 2012). Whereas we concur with their concerns, we do not intend to build on this prior research and outline further conceptual weaknesses of the distance concept, but approach this concept from an entirely different angle by empirically testing the explanatory power of the distance concept.

This paper is part of a project which is based on two pillars, an analysis of the literature which applied the cultural distance concept and a comprehensive empirical study. Here we report only on the results of the latter. We focus on *cultural distance*, the most frequently used distance concept, which is meant to measure the extent to which two national cultures are similar or different. Nevertheless, we argue that our conclusions are equally valid for other distance measures, such as institutional and language distance. Furthermore, we limit our study to the effects of cultural distance on *entry mode choice*. Entry mode choice is arguably the concept that has most frequently been connected to (cultural) distance and, in addition, has been one of the most researched fields

in IB (Werner, 2002). However, we argue that our conclusions regarding entry mode choice are likely to be transferrable to other phenomena that have been related to (cultural) distance.

In the remainder of this paper we will provide first the conceptual background of the cultural distance concept as it developed in the IB literature. Subsequently, we will present results from our empirical study covering MNCs in nine host and fifteen home countries across the world, and show that cultural distance has very little impact on entry mode choice once adequate home and host country control variables are included. Finally, we discuss the implications of our findings and present recommendations for entry mode research in particular and IB research in general.

## CONCEPTUAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Within the literature on entry mode choice, the inclusion of cultural distance as an explanatory variable or control variable has become almost compulsory. Nearly all of the prior studies in the field have used the Kogut & Singh (1988) measure of cultural distance, based on Hofstede's (1980) cultural dimensions. This metric has been subject to trenchant criticism in Shenkar's (2001) JIBS decade award-winning article. Harzing (2003) documented the concept's particular problems in the field of entry mode choice in great detail, and argued researchers in the field suffer from myopia and systematically overestimate the impact of cultural distance. In spite of this, the popularity of cultural distance as an explanatory variable seems unassailable. Citations to Kogut & Singh (1988) are only increasing: in the first decade after publication the article acquired a 'mere' 74 citations in the Web of Science, whereas more than half of the article's 1,158 citations occurred in the last five years. The vast majority of citing articles refer to Kogut & Singh's paper to justify their measurement of culture rather than to the actual content of the paper.

The tenacity with which entry mode researchers cling to this conceptualization of cultural distance is even more surprising if we take into account the completely contradictory results regarding the influence of this concept related to entry mode choice. Even the field's four meta-analyses report contradictory results: two indicate non-significant results (Tihanyi, Griffith & Russell, 2005; Morschett, Schramm-Klein & Swoboda, 2010), whereas the remaining two (Zhao, Luo & Suh, 2004; Magnusson et al., 2008) indicate a negative impact of cultural distance on equity based (i.e. high control) options. However, one of these indicates this is true only for US firms (Zhao et al., 2004), whilst the other reports the conclusion is valid only for European firms (Magnusson et al., 2008). The results for the impact of cultural distance on entry mode choice are so contradictory that they have even spawned quite a large number of articles (e.g. Brouthers & Brouthers, 2001; Wang & Schaan, 2008) that have as their aim to explain this 'paradox'.

However, we argue that this paradox is in fact non-existent and has been created purely through the preferred research practices in this field: the use of secondary data and sophisticated, but black box statistics, combined with the tendency to come up with complex theories to explain effects. By contrast, we argue that these contradictions can be traced to simple home country or host country differences, such as ownership restrictions. We find it striking that these studies seem to completely ignore home and host countries, the very cornerstones of international business. In fact, Brouthers & Hennart (2007: 410) even claim that "[…] theories of entry mode choice originally developed in Western market economies tend to do a good job of explaining mode choice no matter what the origin or destination of the investment" and suggest that "the marginal improvement in explanatory power [of country-level effects] is so small that this additional effort is not warranted."

This paper does not intend to launch another 'attack' on the conceptual and methodological limitations of the cultural distance concept as there have been many studies that have covered these in great detail, albeit so far with little effect in terms of the popularity of this concept. Our critique is at the same time vastly simpler and vastly more wide-ranging: research employing the (cultural) distance concept completely neglected sample composition in terms of home and host country, which has led to wildly varying and sometimes hilarious conclusions. Our plea for (re)discovering the relevance of home and host country context should not be understood only in the narrow sense of our criticism of the distance concept. More importantly, we worry that IB has diverted its attention away from answering "big empirical questions" and instead has become more concerned with filling the boxes suggested by theory and marginally expanding pre-existing explanatory frameworks (Buckley, 2002: 370).

The purpose of this paper is to empirically test the relationship between cultural distance and entry mode choice, and in particular the choice between greenfield and acquisition. First, we argue that cultural distance *does* have an effect on entry mode choices if home and host country effects are *not* considered. This is justified by our prior observation that those factors that we predict to have an effect on entry mode choice often correlate with cultural distance. We further argue that cultural distance does *not* have a systematic impact on entry mode choice once home and host country effects are considered. Hence we formulate the following hypotheses:

*H1a: Cultural distance has a significant effect on the likelihood of a greenfield investment rather than an acquisition when no home or host country dummies are included.*

*H1b: Cultural distance has no significant effect on the likelihood of a greenfield investment rather than an acquisition when home country dummies are included.*

*H1c: Cultural distance has no significant effect on the likelihood of a greenfield investment rather than an acquisition when host country dummies are included.*

One particularly salient host country characteristic is the extent to which host countries restrict foreign ownership of domestic companies, a variable that is not included in most studies, but that correlates strongly with cultural distance in any study with developed or Western home countries and developing or Asian host countries. Makino & Neupert (2000) for instance acknowledge that instead of their focal explanatory variables, the lower level of Uncertainty Avoidance and Power Distance in the USA when compared to Japan, the higher (lower) level of joint ventures in Japan (USA) might primarily be a reflection of local ownership restrictions. Yiu & Makino (2002) show that state influence (regulative institutional pressure), a construct composed of seven variables including ownership restrictions, is a much more important explanatory variable than cultural distance (normative institutional pressure) in entry mode choice. Morschett et al. (2010) find that the legal environment of the host country and in particular legal restrictions is the most consistently significant variable in their meta-analysis of entry mode choice. This is only logical: if firms are pressured by host country governments to adopt certain modes of entry, this overrides any entry mode preferences the company might otherwise have. These restrictions can prevent both wholly owned subsidiaries (when compared to joint ventures) and acquisitions (when compared to greenfields). Hence:

*H2: The inclusion of host country investment restrictions captures the majority of the variance attributed to host countries.*

In the introduction we argued that our study has implications for distance dimensions beyond cultural distance as well. Although most studies have focused on cultural distance, Dow & Lar-

imo (2009) have shown that other distance measures have a stronger explanatory power for entry mode choice than cultural distance. Hence:

*H3a: Language and institutional (educational and political) distance have a stronger positive effect on the likelihood of greenfields than cultural distance.*

On the other hand, our argument that host and home country characteristics are far more likely explanatory variables implies that the effects described in H1b and H1c should be equally present for other distance measures (language and institutional). Hence:

*H3b: The effects hypothesized in H1b-c are also valid for language and institutional (educational and political) distance measures.*

## METHODS

### Sample and data collection

Our data were collected through a questionnaire survey at subsidiary level, i.e. in the foreign subsidiaries of MNCs headquartered in a wide range of home countries. Subsidiaries were located in nine host countries/regions. A wide range of industries were included, both in services and in manufacturing, with varying levels of global integration, local responsiveness and R&D and advertising intensity, thus allowing us to use industry dummies as a proxy for a range of variables traditionally included as explanatory variables in entry mode studies. Table 1 presents the distribution of our sample across host country, home country and industry.

TABLE 1 ABOUT HERE

Our sample provides an excellent opportunity to test the effect of (cultural) distance on entry mode choice as it includes a substantial variation in both Asian and Western home and host coun-

tries. As an added benefit, both within the Asia-Pacific region and within the European region it includes English speaking and non-English speaking countries, allowing us to test language distance with a varied sample as well. Within the European region, it also includes countries with very different cultural profiles: Nordic, Germanic, Latin and Anglo. Geographically, it includes countries from all corners of the world, except Africa and Latin America.

Date were collected over a nearly two-year period (August 2008- April 2010) using questionnaires. Reminders were used to increase response rates. We received 817 questionnaires, resulting in an overall response rate of 13.83% when correcting for undeliverables, a response rate which is quite typical for multi-country studies (Harzing, 1997).

Two sets of analyses were used to assess non-response bias. First, we compared the size and age of subsidiaries that responded with those that did not respond, finding no significant differences for either subsidiary size (581.25 vs. 586.15 employees, $p = .96$) or the year of establishment (1982.53 vs. 1984.42, $p = .123$). Second, as late respondents are seen to be more representative of non-respondents than early respondents (Armstrong & Overton, 1977), responses on all variables were compared between the first mailing and the reminder and found no systematic significant differences on any of the variables. Both analyses suggest that non-response bias is not a problem in our study.

**Measurement of variables**

Our dependent variable, entry mode choice was measured by asking the respondent for the type of subsidiary: greenfield (new start-up firm) or acquisition (take-over of existing firm). Our first set of independent variables relates to the various distance measures. In order to be able to compare our results with prior entry mode studies, cultural distance was measured using the Kogut &

Singh (1988) formula, based on Hofstede's original four dimensions of culture: Individualism/Collectivism, Power Distance, Uncertainty Avoidance, and Masculinity/Femininity. Two other difference measures, language distance and institutional distance (measured as differences in education and differences in degree of democracy) were modelled after Dow & Karunaratna (2006) and Dow & Larimo (2009). Detailed operationalizations are available in these papers, so we only provide a brief summary. Language difference is a three-item scale based on the differences between language families and the incidence of each country's main language in the other country. Difference in education is a three-item scale based on differences in adult literacy and participation rates in secondary and tertiary education. Differences in the degree of democracy is a four-item scale, measuring differences in political constraints, democracy/autocracy, political rights and civil liberties. Actual values for all our home/host country pairs were sourced from the Douglas Dow.

We decided not to include three other distance variables from Dow's studies (differences in religion, differences in industrial development and differences in socialism) for several reasons. First, Dow & Karunaratna (2006) indicate more work is needed to validate the relevance of the latter two variables. Second, the variable for differences in socialism is based on a single item only and measures the same construct (difference in political systems) as the democracy variable. Third, Dow & Karunaratna (2006) acknowledge that the theoretical rationale for the industrial development variable is more obscure than for differences in language and political systems. Finally, although we recognise that differences in religion might impact on business practices, we felt that Dow & Karunaratna's operationalization, based on families of religions, overemphasised the importance of the difference between monotheistic and reincarnation based religions, and as such seemed to lack face validity. The largest scores for religious differences between each single

country and all other countries were found for countries such as Japan and China, not countries in which one would expect religion to strongly influence business practices, whereas much smaller differences were found between for instance Islamic and Christian religions.

Home and host country were measured with direct questions ("In which country is the HQ that you report to located?" and "In which country is this subsidiary located?") with a range of the most common answer possibilities provided plus an "Other, please list" option. The host country variable "foreign investment restrictions" was taken from the IMD world competitiveness report. It is one of 116 questions in a survey that is sent yearly to an international panel of experts. The number of responses varies by year, in the latest available year (2011) it was nearly 5,000. This particular question asks respondents their opinion on investment restrictions on a scale of 1 (foreign investors may not acquire control in a domestic company) to 10 (foreign investors are free to acquire control in a domestic company). As entry mode decisions might be based as much on managerial perceptions of restriction than on the actual restrictions, this variable is a good approximation of the extent to which acquisitions would be feasible in the countries in our study. Ideally we would have liked to use the relevant measures for the year each investment was made. However, this was not possible as these data were either not available or we were unable to access them. We therefore settled for using 1998, the first year for answers to this question were available, for all our observations. As the average age of our subsidiaries was 20 years, we would have preferred to use older survey data. However, if anything, investment restrictions are likely to have been relaxed in countries in which they were traditionally present, so our 1998 variable might provide a conservative estimate of the effect.

The first control variable, industry, was measured with a direct question ("in which general industry sector is this subsidiary operating") with a range of the most common answer possibilities

provided plus an "Other, please list" option. Likewise subsidiary age and size (in terms of number of employees) were measured with direct questions: "In which year was this subsidiary established or acquired" and "How many employees work at this subsidiary", whereas the function of the subsidiary was probed by asking the respondent to select any of the following six functions that applied to their subsidiary: R&R, Manufacturing, Sales/Marketing, Distribution/logistics, Service, National/regional HQ. As subsidiary size was badly skewed, we used the natural logarithm of the number of employees as the final measure of size.

**Analytical method**

In line with previous research, we used binary logistic regression to test our hypotheses, with our dependent variable coded as 0 for acquisition and 1 for greenfield. A positive and significant estimated coefficient thus indicates that the variable is associated with an increased probability of a greenfield entry mode. The null hypothesis that all β's are zero can be tested with the model $\chi 2$. When the model $\chi 2$ is significant, this null hypothesis can be rejected. A test that a specific coefficient is zero can be based on the Wald statistic. Significance levels of separate coefficients based on the Wald statistic are indicated in the models in Table 3.

Our baseline model includes all the control variables discussed above, with subsequent models adding cultural distance (model 2), home country dummies (model 3), host country dummies (model 4), and investment restrictions (model 5). The added explanatory power of these models can be assessed through the $\Delta \chi 2$ and the increase in pseudo R-square measures (Cox & Snell and Nagelkerke R2). Three of the variables included in our model (industry, home country, host country) are categorical variables. The statistics first show the overall significance of these variables through the Wald statistic. In order to investigate the effect of individual industries, home

and host countries on the entry mode choice, we used the deviation method, which shows how each category of the predictor variable except the reference category compares to the overall effect. The reference category for industry and home country was "other", whereas for host country it was Australia/New Zealand. For the control variable industry we only report the two industries that were significantly different from the overall effect.

## RESULTS

Table 2 reports means, standard deviations and correlations among the variables in the study, including all controls. Data on the type of subsidiary was missing for 8.2% of our cases. Of the remainder, the majority of subsidiaries in our sample (59.3%) were acquisitions. With regard to age, one third of the subsidiaries was established or acquired in the 2000s, with another third established or acquired in the 1990s. A full 80% of subsidiaries was established or acquired in the last 3 decades. Hence, there is a reasonably good spread in terms of subsidiary age. In terms of size, 70% of the subsidiaries have between 50 and 500 employees, with the most frequent category in the 101-250 range. However, around 10% of the subsidiaries employ either less than 50 employees or between 501 and 1000 employees or more than 1000 employees. Hence there is a good spread in terms of subsidiary size.

TABLE 2 ABOUT HERE

Greenfield subsidiaries tend to be older and are less likely to have an R&D, distribution, or national/regional headquarters (HQ) function. All distance measures correlate positively with the likelihood of a greenfield entry mode, which confirms the findings of most prior studies (see e.g. Anand & Delios, 1997; Harzing, 2002; Drogendijk & Slangen, 2006, Dow & Larimo, 2011). Many of the distance measures also show high inter correlations. In particular the two measures

of institutional distance – political and educational distance – are highly correlated (.770), whereas cultural distance shows strong a correlation (.487) with language distance.

**Results for cultural distance**

Table 3 provides the regression analyses to test our Hypotheses 1 and 2. In the first step of the regression analysis, we include only the control variables. Subsidiary size and age have a negative and positive effect on the likelihood of a greenfield investment respectively, an effect that is persistent in all models. In terms of subsidiary functions, subsidiaries with an R&D, distribution or national/regional HQ function are less likely to be greenfields. These effects are persistent in most models, but only the effect of the R&D function remains significant when host countries are included. In terms of industry, the banking and the motor industry are the only industries with significantly different entry mode patterns when compared to all other industries, with greenfields less likely in banking and more likely in the motor industry.

TABLE 3 ABOUT HERE

In model 2, we include cultural distance. As in previous studies, it is shown to have a significantly positive, albeit fairly small, effect on greenfield investments. The model statistics show that the addition of cultural distance is significant and increases the explanatory power of the model. This confirms Hypothesis 1a. In model 3, we include the nine home countries in our study with more than 10 observations. Japan and Korea were combined, because of the similarity in their profiles, as were the Chinese Asian countries/regions (mainland China, Taiwan Hong Kong, Singapore) and the Nordic countries (Sweden, Norway, Denmark and Finland). When home countries are included, the effect of cultural distance remains significant, but less so than without them. Hence, Hypothesis 1b is not confirmed. Confirming earlier studies (Hennart and Park,

1993; Makino and Neupert, 2000; Barkema & Vermeulen, 1998, Vermeulen & Barkema, 2001) MNCs headquartered in Japan/Korea or the Chinese Asian countries are more likely to enter countries with a greenfield investment, whereas MNCs headquartered in the Netherlands and the USA are more likely to use acquisitions. Overall, the inclusion of home countries provides a much larger increase in explanatory power than the inclusion of cultural distance in model 2.

In model 4, we include host countries in the analysis. When host countries are included the cultural distance effect becomes insignificant and even changes its sign. This confirms Hypothesis 1c. Inclusion of host countries provides a very significant increase in the model's explanatory power, an increase more than three times as large as for home countries and, more importantly, more than eleven times as large as for cultural distance. Greenfields are significantly more likely in all Asian host countries (China, Japan and Korea) and significantly less likely in France, the UK and the Nordic countries. Overall, there is a clear separation between Asian and Western European host countries. The proportion of greenfields in the reference category (Australia/New Zealand) is similar to that in Germany, Spain and the UK.

Model 5 introduces a specific host country variable (investment restrictions) that we argued would capture a large proportion of the variance related to host countries. As Table 3 shows this is indeed the case, confirming Hypothesis 2. Inclusion of the single-item investment restriction variable captures more than half of the increase in model $\chi 2$ due to host countries as well as more than half of the increase in explanatory power as measured through the Cox and Nagelkerk $R^2$. Most importantly, the investment restriction variable explains six times as much variance as cultural distance.

**Broadening the concept of distance**

As virtually all prior studies have done, so far we have only looked at cultural distance as a measure of distance between home and host countries. What if we followed Harzing's (2003) and Dow & Larimo's (2009) recommendation and include other distance measures, such as language and institutional distance? Dow & Larimo (2009) found most of these distance measures to have a stronger explanatory power than cultural distance in entry mode choice.

Table 4 compares the effects of various distance measures to the base model with only control variables (model 1 in Table 3). As indicated in model 2 in Table 3, cultural distance does have a significant positive effect on greenfield investments. However, as Table 4 shows, language, educational and political distance all have stronger (positive) effects on greenfield investments, explaining at least 60-70% more variance than cultural distance, thus confirming Hypothesis 3a. Dow & Larimo (2009) found educational and political distance to have a significant negative effect on a high control entry mode choice (wholly owned subsidiary over joint venture). Language distance, which has a significant effect in our study, was not significant in Dow & Larimo's study, but this might be caused by sample differences. Whereas Dow & Larimo's sample included less than 10% observations in countries with a high language distance (China, Japan, Korea), our sample featured nearly 40% observations in these countries.

TABLE 4 ABOUT HERE

To test Hypothesis 3b, we ran models 3 and 4 with language, educational and political distance. The effects for language, educational and political distance were very similar to those shown in Table 3 for cultural distance. When home country variables are included the explanatory power of the distance variables declines, but remains significant, when host country variables are included the distance effects all become insignificant ($p=0.237$ to $p=0.571$). Hence we find confir-

mation for Hypothesis 3b. If the alternative distance variables are used in the same regression with cultural distance, they remain highly significant, whereas cultural distance becomes insignificant (for language and political distance) or becomes much less significant (for educational distance).

## DISCUSSION

### Summary of key findings

The results of our empirical investigation are much more consistent than the aggregate of previous studies that incorporated the concept of (cultural) distance. They clearly demonstrate that the ability of the cultural distance concept to explain entry mode choice is more of a myth than reality. Although our analysis indicates that cultural distance has a small, but statistically significant positive effect on greenfield investments (confirming Hypothesis 1a) and that it remains significant when including home countries in our model (rejecting Hypothesis 1b), the inclusion of home countries in our model provides a much larger increase in explanatory power than the inclusion of cultural distance. We showed, for instance, that Asian MNCs have a much stronger preference for greenfield investments compared to Western MNCs *irrespective* of the host country and, hence, cultural distance.

The cultural distance argument becomes entirely unconvincing when host countries are considered in the analysis. At this point the cultural distance effect becomes insignificant (confirming Hypothesis 1c) and even changes its sign. As with home countries, we showed a strong divide between Asian host countries (with more greenfield entries) and Western countries (with more acquisitions).The inclusion of host countries in our model provides an explanatory power for entry mode choice that is three times as high as for home countries and, more importantly, more

than eleven times as high as for cultural distance. More specifically, investment restrictions, a host country variable we considered highly relevant, prove to be very important (confirming Hypothesis 2). This variable alone explains six times as much variance as cultural distance. The final knell of death to the explanatory power of the cultural distance concept was delivered when we broadened our perspective and included other distance concepts, showing that language, educational and political distance all have stronger (positive) effects on greenfield investments, explaining at least 60-70% more variance than cultural distance (confirming Hypothesis 3a). Finally, when home and host countries are included, the resulting effects are very similar to those shown for cultural distance (confirming Hypothesis 3b). In other words: while other distance measures might be more relevant than cultural distance in explaining entry mode choice, home and host country still matters most.

**The relevance of home and host country effects: Asian vs. Western countries**

Whereas home and host country effects are by definition country specific, we observed one important divide between Asian and Western countries. Greenfields are more common in Asian than in Western host countries *regardless* of the home country of the MNC, and greenfields are more common for MNCs headquartered in Asian than in Western home countries *regardless* of the host country (as can be seen from Figure 1).

FIGURE 1 ABOUT HERE

In the absence of host country variables, any significant impact of distance measures on entry mode choice in our sample can easily be explained by the dichotomy between Western and Asian host countries. Subsidiaries in Asian host countries show much larger summated difference scores with their HQ countries than subsidiaries in Western host countries for cultural distance (t=16.002), language distance (t=15.586), educational distance (t=8.220) and political distance (t=15.930).

We can distinguish a number of underlying reasons for the different entry mode patterns in Asian as opposed to Western home and host countries. First, equity markets in the West tend to be more active and less restrictive, and characterized by a more dispersed ownership structure, rendering the option of acquiring companies in Western countries more feasible (Slangen & Hennart, 2001). This host country difference might have a spill-over effect on home country differences as well. As Asian companies are, due to the institutional difficulties of acquiring companies on their home turf, less used to these transactions, they simply might not have the necessary experience to embark on such acquisitions, even in Western countries where the institutional conditions for such an entry mode strategy are more suitable. Another reason for different entry mode strategies might be linked to the fundamentally different strategies of managing the multinational network. US and European companies often pursue a polycentric strategy that leaves more autonomy for local units. This strategy is often well suited for acquired companies which already have established corporate cultures and strategies. In contrast, Japanese companies in particular follow a more ethnocentric strategy which is more standardized around HQ practices. Such a focus on HQ practices, however, renders the management of acquired firms more complex, and hence is likely to lead to a preference for greenfields.

In terms of host countries, companies might prefer entering developing host countries via greenfields, over which they have more control (for example to assure their quality standards). While this argument might hold for China and to some extent for Korea, Japan is of course different as it is a highly developed country. Even so, host country specific cultural and institutional traits might provide a powerful explanation for entering this country via the greenfield route. Japanese companies adhere to the shareholder philosophy to a much lesser extent than most Western companies and are more concerned about their employees as key stakeholders. Therefore, it becomes essential for management to keep their company independent and to fend off any attempt of being bought up by another company, in particular a foreign one. Consequently, it is much more difficult for foreign companies to find possible take-over candidates in Japan. Japanese companies can typically only be acquired if they are close to bankruptcy, as only the continued existence of the company matters more than its independence. The relative surge in acquisitions of Japanese companies in the 1990s was due exactly to the difficulties Japanese companies experienced in this period. Similar arguments can be made for Korean and Chinese companies which also tend to cherish their independence and long-term growth possibilities more than the short-term gain of their shareholders. In addition, in China most companies are still state owned enterprises which makes purchase by foreign companies very difficult. These arguments are as valid for culturally distant Western headquarters as for culturally closer headquarters in other Asian countries. In other words, it is not cultural distance that matters, but the institutional environments in home and in particular host countries.

**Possible extensions of our study on (cultural) distance**

In our study we concentrated on *cultural* distance as the most frequently used distance concept and its relevance for *entry mode choice*, the most often studied phenomenon in the context of

distance. We broadened our focus by including institutional and language distance. As we have seen, our key findings – poor explanatory power of the distance concept; much higher relevance of home and host country context – were equally valid for these additional distance measures. A further extension to our study would be to investigate the explanatory power of the distance concept in relation to other phenomena. Previous studies have already related the distance concept, among others, to the transfer of (HR) management practices, the choice between local and expatriate managers, the performance of foreign subsidiaries, innovation, organizational transformation and technology transfer. Whereas we have not collected empirical evidence in this respect, we expect that our key findings would hold equally for these and other phenomena. To provide an example, we would suggest that the extent to which, say, a British MNC transfers its HRM practices to its German and Polish subsidiaries will be influenced more by host country labour market regulations than by (cultural) distance. This implies that even though the cultural distance between the UK and Germany is, according to Hofstede's value dimensions and, consequently, the Kogut & Singh formula, significantly lower than the distance between the UK and Poland, the potential to transfer HRM practices will not necessarily be higher, because of the highly regulated German labour market.

Furthermore, we emphasize that *any* study investigating *any* distance dimension with reference to *any* phenomenon would need to include *several* home and host countries (and select them on valid theoretical grounds) in order to be able to separate distance from home/host country effects. The main outcome of our current study is therefore not a statement on the extent to which (cultural) distance makes a difference, but an argument that home and host country context provides a simpler, yet more powerful alternative to the distance concept. If, however, one wanted to actually test whether (cultural) distance has any real explanatory power, we would recommend the

following: choose a country sample for which (cultural) distance is high (e.g., between Latin European and Nordic countries), but for which fewer differences in other context variables such as labour market or investment restrictions exist, for example due to common EU regulations. Such studies, however, have so far been rarely, if ever, conducted.

## IMPLICATIONS OF OUR STUDY FOR IB RESEARCH PRACTICE: WHY AND HOW DID CULTURAL DISTANCE BECOME INSTITUTIONALISED?

With so many compelling theoretical concerns about the distance concept, as indicated in our conceptual background description, and no consistent empirical evidence for it, as shown in our empirical study, one has to wonder why so many studies, over such a long period of time, have employed and continue to employ this concept. In more general terms, we wonder why scholars did not apply the basic heuristic often referred to as Ockham's Razor which states that simpler explanations (such as home/host country context) should be preferred over more complex ones (such as cultural distance), unless simplicity can be traded for a higher degree of explanatory power. As we have seen, the reason for the lack of acquisitions in some countries might simply be legal restrictions, not cultural distance. Of course there might well be *underlying* reasons for these restrictions that might allow for more sophisticated theorizing. However, researchers have too often skipped the step of describing facts and plumped for more fancy sounding theoretical explanations instead. In most studies that we analysed, simply describing the facts would *instantly* have invalidated any arguments that cultural distance was a causal factor in entry mode choice.

We argue that there are five dominant research practices in IB that have led to an institutionalisation of the cultural distance concept: (1) a preference for convenience over context, (2) a reliance on secondary data over primary research, (3) a theory 'fetish' that displaced sense-making of empirical phenomena, (4) the imitation of strategy research, and (5) the 'obsession' with static clas-

sifications on the basis of national cultural values. Although, because of the theme of our paper, we use the application of cultural distance in IB as a prime example, the problematic consequences of these research practices are by no means limited to this area.

**From convenience to context: A call for interdisciplinary and comparative research**

We believe that much of the institutionalisation of the cultural distance concept is owed to its convenience in research practice. A formula that is a composite measure of distance for various cultural values might appear to be a more complex and even sophisticated construct than simple descriptions of contextual particularities, but its application is temptingly easy. Scholars do not need to burden themselves with obtaining any in-depth knowledge about the countries they are investigating; all they need to do is to look up a few distance measures which they can enter in their regressions. Hence, we do not doubt the practicability of the cultural distance concept that allows bypassing all the complexities of culture, but we have serious doubts about its capability to explain actual empirical phenomena. What we put forward as an alternative to the distance concept might possess less theoretical elegance and practical convenience, but more explanatory power: in-depth contextual information about the countries under study.

Hence, we fully concur with Cheng, Henisz, Roth and Swaminathan (2009: 1072) who in their editorial in JIBS wrote: "The important IB phenomena that require further theoretical explication are typically multi-level and deeply embedded contextually. Deeply embedded phenomena can be explained only by also understanding related contextual processes." Tsui (2007: 1358) brought the relevance of context to the forefront by claiming: "In essence, taking the context seriously, either within a single nation or across multiple nations, is simply practicing good science."

In order to gain the required understanding about deeply embedded context, interdisciplinary research, often called for in editorials, but rarely conducted in practice, is an absolute necessity. Whereas psychology has reached a powerful influence, not just on OB but increasingly also on general management studies, matching the weight traditionally accorded to economics, insights from other disciplines should (again) achieve more relevance, especially in IB. The disciplines that come to mind are sociology, political science, anthropology, history, law, international relations and, particularly important to gather country-specific contextual knowledge, area studies. For example, in our study we highlighted the relevance of the legal aspect of investment restrictions.

Given that many empirical phenomena in IB regard at least two countries (home and host country, for example), the neglected discipline of comparative studies also merits our particular and renewed attention (Shenkar, 2004). For Buckley (2002) successful IB research is defined not only by its distinctive methods, but also by its attention to cultural differences and the comparative method. However, nearly twenty years ago Vernon (1994) already warned IB researchers against the demise of comparative national business systems as one of the three core areas in IB (the others being international trade and the multinational enterprise). As reasons for this development, he identified US ethnocentrism, discussed in more detail below, and the lack of willingness to invest efforts in gaining knowledge about various business systems, a necessity in order to compare them in a meaningful way. How justified Vernon's concern is can be seen from a literature analysis by Griffith, Cavusgil and Xuenkar (2008). It found that among the 112 most influential articles in IB published between 1996 and 2006 42% fell into 'business dynamics and strategy' but only 5% into 'comparative capitalism and institutions'. Accordingly, Shenkar (2004: 164) stated that "the omission of comparative business … amounts to no less than negating the value

of local knowledge" and that "the disappearance of the comparative perspective has robbed IB of one of its most important theoretical and methodological bases."

**From a reliance on secondary data to primary research with conceptually justified samples**

A second likely reason for the institutionalisation of the cultural distance concept is the heavy reliance on secondary data in IB research, especially in the more strategy-oriented IB studies. IB scholars should in our view critically review the adoption of a practice that is increasingly dominating strategy research, that is, the use of secondary data. When reviewing the last decades of strategy research, Boyd, Haynes, Hitt, Bergh, and Ketchen (2012) found that survey and laboratory methods were used less and less, whereas the popularity of archival data studies increased. In this context, Ketchen, Ireland, & Baker (2013: 32) referred to the use of archival proxies as potential "castles made of sand", given that they are often not sufficiently associated with the construct they are meant to capture, compromising construct validity. As we have seen, most of the research on entry mode choice is built on secondary data and, hence, is likely to suffer from this same problem. Using primary data instead would allow researchers to investigate the actual explanatory variables of interest. Why don't researchers consider asking managers why they make particular entry mode decisions? If they had, answers such as "well, it's quite straightforward, it is very difficult to acquire a company in Japan no matter where you are from, so you need to go for a greenfield or a joint-venture" surely would have come up – and cultural distance would have been discarded very quickly as a crucial explanatory factor.

For meaningful primary (as well as secondary) research studies, scholars need to pay very careful attention to sample composition, as sample imbalances can easily distort a study's conclusions. While practical concerns like access to data are clearly relevant, ultimately the choice of coun-

tries needs to be defined by theoretical considerations. In other words, those countries should be included which can be expected to be relevant for the study's research question (Shenkar, 2004). For example, Harzing & Pudelko (2013) argued that most prior research in the field of language differences in HQ-subsidiary relationships had focused on a small set of countries. By contrast, they included home and host countries in all four quadrants created by the two dimensions that were important for their study, i.e. importance of the local language and English language skills. Even though Child, Chung and Davies (2003) suggested choosing countries in a way that contrasting and comparing of competing theories is possible, this is exactly what entry mode choice research has *not* done. Nearly all samples in these studies were convenience samples, with the home or host country being the researcher's country. In addition, many studies tend to focus on the same small set of countries (such as USA, Japan, Germany, China and the UK). Our study showed that sample specificities led to entirely contradictory research outcomes regarding the alleged effects of cultural distance.

**IB research is more than theory: Making sense of empirical phenomena**

A third reason for the institutionalisation of the cultural distance concept might well lie in the IB field's 'obsession' with universalistic theory over the understanding of particularistic empirical phenomena. Buckley (2002: 370) claimed that for IB "the way forward is, paradoxically, to look back to the successes of international business research. These successes were achieved by identifying *the key empirical factors* in the global economy which needed to be explained and then searching out a tractable means of explication within a coherent theoretical framework. The first step is to identify *the most important stylized facts*" (emphasis added). Putting key empirical factors (back) to center stage implies a stronger focus on the particularities of country-specific phenomena. It is unfortunate though that country-specific expertise appears not to be sufficiently

valued, not even in IB. We argue that leading IB journals in particular have created disincentives to investigate country-specific particularities in depth on the grounds that such studies would be 'merely' descriptive and not sufficiently theory-oriented. As a result, scholars with deep particularistic insights have been forced to 'shoehorn' their findings within some sort of speculative but generalizable theory in order to be able to publish in highly regarded journals, and ultimately, to be taken seriously.

Hambrick (2007: 1346) asked the rhetorical question whether in management studies, the "devotion to theory [is] too much of a good thing". We think his answers in which he spoke of "our field's theory fetish", "religious fervor" and about having "gone overboard in our obsession with theory" are equally applicable to IB. Furthermore, he established that this is a situation unique to management studies. By contrast, other business studies disciplines, such as marketing and finance, or economics are not as obsessed with theory which is why their top journals also publish papers that are not theory-based. Alarmingly, he considered this development as a "sign of our academic insecurity", meant to demonstrate the area's academic credibility. However, theory is not a purpose in its own right, but rather a means toward better understanding. But then so is the provision of "rich detail about interesting phenomena for which no theory yet exists". Once interesting facts are known, other scholars might pick up the baton and investigate which existing theory might be enriched or which new theory established (Helfat, 2007). Hence, what matters in the end is to be "theoretically interesting", not to be "theoretically driven" (Baker & Pollock, 2007). While these arguments are valid for management studies generally, we believe they are particularly relevant for IB research.

In a similar vein, Cheng et al. (2009: 1072) suggested that IB research will not advance by constantly reformulating dependent and independent variables but by "*addressing a phenomenon*

that can only be unpacked by combining theories, concepts, data and methods from multiple disciplines to explore the scope or boundary conditions of multiple disciplinary perspectives and the benefits of their integration" (emphasis added). A theory-driven approach, which builds a priori on well-established concepts, usually developed in the silo of a narrowly defined mono discipline, all too often neglects the empirical reality it is meant to explain. Instead, regressions are run until they confirm what the initial theory predicted, using "statistical techniques as crutches or substitutes for critical thinking about the problem of interest, resulting in dubious analyses" (Reeb, Sakakibara, Mahmood, 2012: 216; Thomas, Cuervo-Cazurra, & Brannen, 2011). In contrast, in our study we did not merely rely on the cultural distance concept, entering a few distance scores in a regression analysis. Instead, the leitmotiv of our investigation was to get closer to particular empirical phenomena and explore, more specifically, home and host country effects. Consequently, the benchmark for research excellence should be the sense-making of particularly interesting empirical cross-national phenomena which widens our understanding, not the generation of yet a further new (and probably never tested) theory.

**IB research is more than an imitation of strategy research**

A fourth probable reason for the institutionalisation of the cultural distance concept is that authors are seeking credibility in basing their study on what appears to be a generally recognized and uncontested concept with validity across all national contexts. In this aspiration they emulate research of an area in management studies which has been particularly keen to rely on parsimonious and universally valid theories: economics-based strategy research. However, in our view, the search for universalist answers that strategy research tends to embark on by treating local variations as mere 'externalities' and 'idiosyncrasies' is a dangerous path. It leads to oversimplifications and the use of simplistic theories and methods, initially developed for a domestic (often:

US) environment (Shenkar, 2004). The application of the cultural distance concept is in fact a perfect example. Despite being conceptually, methodologically and empirically highly problematic, it enjoys vast popularity among strategy (and unfortunately even IB) scholars.

We concur with Shenkar (2004: 163) in that IB scholars are not taking advantage of "the richness of the conceptual frameworks and methodological tools available from other disciplines and those that have been indigenously developed over decades, which are often more suited to deal with the complexity of the phenomena they are set to capture". We believe it is deplorable that IB scholars have on one hand increasingly given up on research for which they possess an innate competitive advantage, i.e. to incorporate and integrate only partially codified and complex insights from various other disciplines. Knowing about, understanding and interpreting this information should be a specific and difficult to emulate strength of IB scholars, in particular those with a regional (or country) focus. On the other hand, in their efforts to gain scholarly credibility and status by increasingly mimicking mono-disciplinary research, IB scholars cannot but lose out. They can't be fully at par with researchers from another discipline on their respective home turf, while at the same time addressing all the additional challenges of cross-national research.

Therefore, it is ironic that IB scholars with their often unique demographics, interests, sensibilities, perspectives and identities seem to increasingly discard what they know best and emulate instead research others seem to be in a better position for (Brannen & Doz, 2010; Shenkar, 2004). The topic of our study is a case in point: instead of studying the particularities of home and host countries in the context of entry mode choice, for which IB scholars should be particularly well prepared, they frequently contend themselves with the use of a few cultural distance scores. Shenkar (2004) rightly deplored that scholars recommend managers to be conscious of country-specific contextual information, but consider this advice apparently not applicable to themselves.

Differences in context are, however, not just 'noise' that needs to be reduced, but should be the very purpose of IB research.

Strategy scholars tend to take an etic perspective, influenced by a domestic research environment, and highlight the universality of their research. By contrast, area studies researchers take more of an emic approach, viewing cross-border activities from the perspective of the actors, and stress the particularities of national contexts. Both do so largely to justify the raison d'être of their own respective discipline (Pudelko, 2006). In our view IB scholarship would do well to take its lead more from area studies than from strategy, but de facto we observe the opposite. In this context, Brannen & Doz (2010: 238) argue that "IB has been progressively hijacked by *domestic* strategy scholars who joined the bandwagon of IB" and that "this domain hijacking, combined with the predominant thrust of strategic thinking as firm-centric, often resulted in a *home-centric* mindset in IB research" (emphasis added). What is more, the arguably universalistic core assumptions of strategy research are not just derived from the domestic context of the researcher, wherever (s)he might be from, but rather are specific to the US research environment (Tsui, 2007; Brannen & Doz, 2010). The observable global convergence in the research community toward assumptions that have been formulated by US-based research might not necessarily occur because of their universal validity, but might simply be a result of a dominance effect of such US-based research (Pudelko & Harzing, 2007). IB research, with its quasi inherent obligation to be sensitive towards emic approaches, should therefore be particularly careful to avoid a convergence towards one dominant model.

**Cross-cultural management: More than classifications on the basis of national cultural values**

While research that refers to the cultural distance concept on the one hand follows strategy-based research in its aspiration to rely on a parsimonious and universally valid theory, on the other hand it finds an even stronger foundation in another building block of IB: cross-cultural management. We believe that a fifth reason for the institutionalisation of the cultural distance concept might lie in the dominant role of national values in cross-national management. After all, much of cross-cultural management is (still) based on the comparison and classification of cultural value scores which provide the very foundation of the cultural distance concept. While being clearly more sensitive towards differences between national cultures than strategy research, we concur with Brannen & Doz (2010) who argue that much of cross-cultural management with its 'obsession' with static classifications on the basis of national cultural values ultimately leads to an equally large detachment from the empirical phenomena it is meant to explain. The values-based cultural distance concept and the simultaneous neglect of particular home and host country effects is a case in point. Hence, despite starting almost from an opposite position, the outcome is comparable to that of strategy research, in that both approaches are largely insensitive to the context-embedded complexities and dynamics of cross-cultural interactions, as they remain on a too high level of aggregation and theoretical abstraction.

Consequently, both strategy-based and cross-cultural management IB research "utilized an arm's length approach to understanding IB" (Brannen & Doz, 2010: 240). Furthermore, in their effort to appear as 'scientific' as their strategy-based IB colleagues, cross-cultural management researchers are also predominantly following a positivist research paradigm and use large-scale cross-sectional quantitative and deductive studies. However, contextual sensitivity and the understanding of emergent and dynamic phenomena in different environments in many instances call for the more in-depth, qualitative and inductive approaches of an interpretivist research paradigm.

Finally, both streams of IB research have remained largely separated from each other, except for the oversimplified use of the values-based national cultural taxonomies, so that synergies in form of inter-paradigmatic theory building have largely remained elusive. Hence, we echo the call voiced by Brannen & Doz (2010: 244) for "intermediate level-of-analysis that would explicate individuals in context collaborating across contexts" and which would ultimately "bridge the gap between the economics and cross-cultural perspectives and concomitantly build on both".

## RECOMMENDATIONS FOR FUTURE RESEARCH IN INTERNATIONAL BUSINESS

Our reflections on the state of the IB discipline led us to conclude that current research practice shows a series of rather substantial shortcomings that needs addressing. We consider this necessary both to improve the quality and relevance of research outcomes and to strengthen the position of IB research. Based on these reflections, we have formulated ten concrete recommendations in the hope that these will assist future IB research practice.

1. Use *Ockham's Razor principle*, i.e. try to find the simplest possible explanation for a particular phenomenon and provide *simple descriptive results* for before moving on to sophisticated, but black box statistics.
2. Provide *information on relevant context* in order to describe deeply embedded phenomena.
3. Engage in *interdisciplinary research* to integrate data, concepts, theories and methods from other disciplines into IB research.
4. Pursue more *comparative research* to increase knowledge about different business systems and management practices.
5. Reconsider the use of secondary data and try to collect *primary data* wherever possible.

6. Select the *countries of investigation* carefully according to theoretical considerations and not simply according to convenience.
7. Focus more on *empirical phenomena* and try to make sense of them instead of employing a priori established theories or feeling forced to develop new theories.
8. Avoid imitating *strategy research* in its quest to seek parsimony and universally applicable concepts and instead strive toward the contextualization of only partially codified and complex insights from other disciplines.
9. Avoid adopting theories and methods from *one dominant model* and be sensitive towards different approaches from different research environments.
10. Rethink how to conduct *cross-cultural management research* and work towards a meaningful integration of strategy-based and cross-cultural management-based research to achieve a rich description of empirical phenomena and ultimately the building of insightful theory.

## CONCLUSION

We believe that our study has made a number of significant contributions. First, we showed that *any* study examining the impact of *any* distance dimension on *any* empirical phenomenon would need to include *several* carefully chosen home and host countries to be able to differentiate distance from home/host country effects. The chief contribution of our research was, however, to empirically establish that home and host country context has a significantly higher explanatory power for entry mode choice, and quite possibly many other IB phenomena, than the distance concept. Consequently, we would like to see more studies in IB that follow our suggestions and incorporate home and host country context in lieu of the distance concept. In addition, we hope that our reflections on, and recommendations for, future research in IB will be helpful in stimu-

lating studies which will enrich this research area and enhance its standing in the wider field of management studies.

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## TABLES AND FIGURES

*Table 1: Distribution of sample across host country, industry and home country*

| **Host country** | **Number of respondents** | **Home country** | **Number of respondents** |
|---|---|---|---|
| Australia/New Zealand | 92 | **(< 10 resp. omitted)** | |
| China | 91 | Austria | 14 |
| France | 70 | Belgium | 14 |
| Germany | 125 | Denmark | 14 |
| Japan | 80 | France | 67 |
| Korea | 118 | Finland | 19 |
| Nordic countries | 71 | Germany | 107 |
| Spain | 82 | Italy | 18 |
| United Kingdom | 88 | Japan | 89 |
| **Industry** | **Number of respondents** | Netherlands | 35 |
| Banking & Insurance | 20 | Norway | 11 |
| Business Services | 78 | Singapore | 13 |
| Chemicals | 129 | Sweden | 28 |
| Food & Beverages | 55 | Switzerland | 42 |
| Industrial Machinery | 130 | United Kingdom | 56 |
| Measuring & analysing instruments | 30 | United States | 222 |
| Motor vehicles & parts | 138 | Other | 68 |
| Paper & allied products | 33 | | |
| Pharmaceuticals | 73 | | |
| Rubber & Plastics | 60 | | |
| Other | 71 | | |
| **Total** | 817 | **Total** | 817 |

*Table 2: Correlation matrix*

| Variable | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1** Greenfield | .41 | .492 | | | | | | | | | | | | |
| **2** Size (log) | 5.37 | 1.24 | .039 | | | | | | | | | | | |
| **3** Age | 19.89 | 21.07 | .178** | .112** | | | | | | | | | | |
| **4** R&D function | .35 | .476 | -.203** | .124** | .011 | | | | | | | | | |
| **5** Manufacturing function | .73 | .445 | -.058 | .074* | -.024 | .218** | | | | | | | | |
| **6** Sales/marketing function | .57 | .496 | -.065 | -.023 | .107** | .351** | -.014 | | | | | | | |
| **7** Distribution/logistics function | .38 | .485 | -.215** | -.029 | .000 | .415** | .218** | .497** | | | | | | |
| **8** Service function | .36 | .481 | -.071 | -.002 | -.013 | .278** | -.181** | .301** | .320** | | | | | |
| **9** National/regional HQ | .29 | .456 | -.176** | .042 | .104** | .221** | -.047 | .311** | .349** | .285** | | | | |
| **10** Cultural distance | 1.83 | 1.38 | .212** | .066 | -.057 | -.099** | -.023 | -.049 | -.197** | -.113** | -.158** | | | |
| **11** Language distance | -.20 | 1.15 | .173** | .045 | -.058 | .020 | .034 | -.033 | -.086* | -.102** | -.144** | .487** | | |
| **12** Educational distance | .35 | .41 | .191** | .065 | -.152** | -.133** | .097** | -.116** | -.091** | -.135** | -.134** | .201** | .081* | |
| **13** Political distance | .33 | .55 | .280** | .123** | -.163** | -.175** | .062 | -.141** | -.189** | -.126** | -.167** | .322** | .147** | .770** |

*Table 3: Regression analyses comparing the impact of cultural distance with home and host country effects*

| | Model 1: Control variables | | | Model 2: Overall Cultural distance | | | Model 4: Including Home countries | | | Model 5: Including Host countries | | | Model 5: Including Investment restrictions | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Variable** | ***B*** | ***Wald*** | ***Exp(B)*** | ***B*** | ***Wald*** | ***Exp(B)*** | ***B*** | ***Wald*** | ***Exp(B)*** | ***B*** | ***Wald*** | ***Exp(B)*** | ***B*** | ***Wald*** | ***Exp(B)*** |
| **Cultural distance** | | | | .205 | 11.013*** | 1.228 | .181 | 7.238** | 1.198 | -.035 | .200 | .966 | .158 | 6.077* | 1.171 |
| **Investment restrictions** | | | | | | | | | | | | | .313 | 60.326*** | 1.269 |
| **Home country** | | | | | | | | 37.950*** | | | | | | | |
| France | | | | | | | -.410 | 2.005 | 0.664 | | | | | | |
| Germany | | | | | | | -.065 | 0.076 | 0.937 | | | | | | |
| Japan/Korea | | | | | | | 1.069 | 18.016*** | 2.913 | | | | | | |
| Netherlands | | | | | | | -1.062 | 5.917* | 0.346 | | | | | | |
| Switzerland | | | | | | | .410 | 1.282 | 1.508 | | | | | | |
| UK | | | | | | | -.016 | 0.003 | 0.984 | | | | | | |
| USA | | | | | | | -.366 | 4.198* | 0.694 | | | | | | |
| Chinese Asia | | | | | | | .983 | 6.325* | 2.672 | | | | | | |
| Nordic countries | | | | | | | -.172 | 0.362 | 0.842 | | | | | | |
| **Host country** | | | | | | | | | | | 104.679*** | | | | |
| China | | | | | | | | | | 2.276 | 58.785*** | 9.735 | | | |
| Japan | | | | | | | | | | 1.831 | 34.572*** | 6.242 | | | |
| Korea | | | | | | | | | | .632 | 8.321** | 1.881 | | | |
| Germany | | | | | | | | | | -.401 | 2.780† | 0.669 | | | |
| France | | | | | | | | | | -1.083 | 10.162*** | 0.339 | | | |
| Spain | | | | | | | | | | -.318 | 1.407 | 0.728 | | | |
| UK | | | | | | | | | | -.664 | 5.890* | 0.515 | | | |
| Nordic countries | | | | | | | | | | -1.438 | 14.052*** | 0.237 | | | |
| **Control variables** | | | | | | | | | | | | | | | |
| Subsidiary size | -.073 | 3.519† | 0.930 | -.138 | 9.841** | 0.871 | -.145 | 10.068** | 0.865 | -.166 | 10.746*** | 0.847 | .153 | 6.849** | 1.166 |
| Subsidiary age | .022 | 24.358*** | 1.022 | .022 | 25.692*** | 1.023 | .026 | 31.091*** | 1.026 | .028 | 33.212*** | 1.029 | .027 | 33.316*** | 1.028 |
| R&D function | -.800 | 15.593*** | 0.450 | -.757 | 13.811*** | 0.469 | -.665 | 9.738** | 0.514 | -.639 | 7.379** | 0.528 | -.827 | 13.930*** | 0.437 |
| Manufacturing function | -.171 | 0.626 | 0.843 | -.212 | 0.955 | 0.809 | -.246 | 1.187 | 0.782 | -.206 | 0.731 | 0.814 | .211 | 0.765 | 1.235 |
| Distribution function | -.740 | 11.182*** | 0.477 | -.635 | 7.985** | 0.530 | -.545 | 5.329* | 0.580 | -.200 | 0.609 | 0.818 | -.413 | 2.965† | 0.662 |
| Marketing/sales function | .384 | 3.882* | 1.469 | .291 | 2.146 | 1.338 | .331 | 2.540 | 1.393 | .213 | 0.889 | 1.238 | .472 | 4.911* | 1.603 |
| National/regional HQ | -.682 | 10.630*** | 0.505 | -.658 | 9.704*** | 0.518 | -.733 | 11.113*** | 0.480 | -.125 | 0.268 | 0.883 | -.431 | 3.745† | 0.650 |
| **Industry** | | 18.217* | | | 14.908 | | | 11.149 | | | 12.849 | | | 13.206 | |
| Banking | -1.309 | 4.666* | 0.270 | -1.124 | 3.375† | 0.325 | -1.093 | 3.048† | 0.335 | -1.480 | 3.718† | 0.228 | -1.481 | 4.292* | 0.227 |
| Motor vehicles & parts | .548 | 6.703** | 1.730 | .476 | 4.964* | 1.610 | .395 | 2.944† | 1.485 | .556 | 5.271* | 1.744 | .419 | 3.370† | 1.520 |
| **Model statistics** | | | | | | | | | | | | | | | |
| Δ $\chi 2$ | | | | 11.518*** | | | 40.769*** | | | 132.903*** | | | 67.602*** | | |
| Model $\chi 2$ | 130.998*** (df=18) | | | 142.516*** (df=19) | | | 183.284*** (df=28) | | | 275.419*** (df=27) | | | 210.117*** (df=20) | | |
| Cox and Snell R2 | .162 | | | .175 | | | .219 | | | .311 | | | .247 | | |
| Nagelkerke R2 | .216 | | | .234 | | | .293 | | | .414 | | | .330 | | |

[a]Values of Exp(*B*) above 1.0 indicate a positive effect and values below 1.0 a negative effect; n = 740. † p <.10, *p < .05, **p < .01, *** p < .001

*Table 4: Comparison of various distance effects, % improvement over cultural distance model in brackets*

| Variable | Improvement to base model Model $X^2$ | Cox $R^2$ | Nagelkerke $R^2$ |
|---|---|---|---|
| **Cultural distance** | 11.518*** | .013 | .018 |
| **Language distance** | 19.122*** (+66%) | .022 (+69%) | .029 (+61%) |
| **Educational distance** | 20.385*** (+77%) | .023 (+77%) | .031 (+72%) |
| **Political distance** | 28.626*** (+149%) | .076 (+485%) | .101 (+461%) |

*Figure 1: Percentage of greenfield subsidiaries by home and host region*