

THE ROLE OF CULTURE IN ENTRY MODE STUDIES: FROM NEGLECT TO MYOPIA

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ABSTRACT

In order to be able to advance scientific knowledge, researchers should consciously explore and critically evaluate alternative explanations of the phenomena under investigation. We feel that research in the area of entry mode choice has neglected these recommendations where it concerns the impact of cultural distance (CD) on entry mode choice. In this article, we argue that sample idiosyncrasies, coupled with an almost blind confidence in one specific measurement of CD, have led researchers in this field to systematically overestimate the role of CD in entry mode decisions. We argue that specific home and/or host country characteristics are equally plausible explanatory factors for entry mode decisions as CD and plead for a more sophisticated treatment of culture in the entry mode choice literature.

INTRODUCTION

Foreign Direct Investment (FDI), and more particularly the selection of different foreign market entry modes remains one of the most extensively researched topics in International Business. A recent review (Datta, Herrmann & Rasheed, 2002) limited to foreign market entry by U.S. firms or entry into the U.S. by non-US firms identified nearly 100 studies over the past three decades. This is not surprising, since, as Datta et al. (2002) indicate, foreign market entry choice is one of the most important strategic decisions in the internationalization process. However, studies in this field have been criticized on many aspects (for a review see Datta et al. 2002) and have often presented equivocal and inconsistent results. One of the areas in which inconsistent results are particularly striking is the impact of CD on entry mode choice. Culture did not feature promi-

nently in early entry mode studies, but since Kogut & Singh (1988) quantified CD with a simple formula based on Hofstede's (1980)² dimensions, the number of publications incorporating CD as one of their independent variables has boomed.

In a recent *Journal of International Business Studies* article, Shenkar (2001) presents a critical review of the CD construct. He identifies FDI as the area in which the quantitative measurement of CD – the index designed by Kogut & Singh (1988) – has had its greatest impact. Since it offered “a seemingly simple and standardized measure of cultural difference” (Shenkar 2001:519) it was easy to incorporate in statistical models that used other “hard data”. The complexity and intricacy of the CD concept was thus bypassed. Shenkar suggests that the inconsistent results obtained in studies on the sequence of FDI, the choice of entry mode and subsidiary performance might be due to hidden (and false) assumptions about the conceptual and methodological properties of the CD concept. Although we fully support his critical observations, the next section's review of studies in the field suggests that research into the impact of CD on foreign entry mode choice might be characterized by an even more basic flaw: a complete neglect of the impact of sample idiosyncrasies. We suggest that this flaw, combined with an almost blind confidence in one specific measurement of CD, has led researchers to systematically overestimate the impact of culture. A subsequent discussion section reviews the three main conceptual flaws in the current entry mode choice literature: lack of theory, lack of recognition of home/host country effect³ and a neglect of country differences other than CD. It also reviews some empirical flaws and provides recommendations for a more meaningful way of studying the impact of CD on entry mode choice. A short conclusion summarizes our arguments.

CD IN THE FDI LITERATURE

As indicated by Shenkar (2001), research into the role of CD in the FDI literature has concentrated in three major areas: foreign market selection and the sequence of foreign investment; entry mode choice; and performance of foreign subsidiaries or joint ventures (JVs). In this paper,

we will focus on the second area: entry mode choice, since the largest number of publications are found in this area. Within this area we can distinguish three broad categories which focus respectively on the choice between equity and non-equity modes of entry, the choice between shared and full control, and the choice between greenfields and acquisitions. This section will critically review all 30 publications that were identified in our literature search.⁴ Before starting our review, we would like to emphasize that the criticism raised in this article only concerns the way in which authors deal with CD as an independent variable in entry mode studies. Our criticism normally *does not* extend to their overall research efforts, which might be, and in many cases are, extremely valuable. Table 1 summarizes the key details of each of the 30 studies included in our review. It indicates the dependent, independent and control variables, the type of data used, the home and host countries included in the study and the way CD was measured. The final column indicates the studies' hypotheses and findings with regard to the impact of CD. Hypotheses were supported unless stated otherwise.

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Table 1 about here
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CHOICE BETWEEN NON-EQUITY AND EQUITY MODES OF ENTRY

Thirteen studies have investigated the impact of CD on the choice between equity and non-equity entry modes. A comprehensive review of all of these studies can be found in Appendix 1. The most common comparison in this category is between licensing and FDI, although some studies include franchising and/or exporting instead, or compare equity versus contract-based alliances. While the majority of these studies used secondary data, four studies were based on primary data, while one study combined primary and secondary data. Eight of the studies focused on one home country only, which with only one exception was the US. One study (Chen & Hu, 2002) investigated entry mode choices of MNCs from several home countries entering

one specific host country: China. Three studies included multiple home and host countries, although one of these (Taylor et al., 1998) included only the U.S. and Japan as home countries. One study (Contractor & Kundu, 1998) did not provide any details about home or host countries involved.

We can distinguish two opposing theoretical arguments for the relationship between CD and (non)equity modes of entry. One argument says that CD leads to a preference for non-equity entry modes. This argument is based on the process school of internationalization (Johanson & Vahlne, 1997) which predicts that firms will start with low commitment entry modes (such as exporting and licensing) because of psychic distance. When they learn more about a country, equity based entry modes such as a sales subsidiary or overseas production become more feasible. This argument can also be based on transaction cost theory. However, as Anderson & Gatignon (1986) and Gatignon & Anderson (1988) indicate, transactions cost theory can logically accommodate opposite predictions for the relationship between CD and entry mode, since CD increases both transactions costs and the cost of internalization. Cost for market transactions increase, because the uncertainty involved in a foreign market makes it more difficult to monitor agents. On the other hand, internalization costs increase as well since it is more difficult to collaborate with foreign partners. Following the first line of argument, MNCs would choose equity-based entry modes in culturally distant countries, while according to the latter argument the preference would be for non-equity based entry modes.

Studies investigating the impact of CD on the choice between equity and non-equity entry modes reflect the conflicting theoretical predictions identified above. Seven studies predicted a negative relationship between CD and equity entry modes. Of these studies four found their hypothesis confirmed (Davidson & McFetridge, 1995; Kim & Hwang, 1992; Fladmoe-Lindquist & Jacque, 1995; Arora & Fosfuri, 2000), two provided insignificant results (Contractor & Kunda, 1998; Azofra Palenzuela & Martinez Bobillo, 1999) and one found confirmation for the opposite relationship (Shane, 1992). Four studies predicted a positive relationship between CD and

equity entry modes, with three studies providing support for their hypothesis (Sengupta & Perry, 1997; Taylor et al., 1998; Chen, 2002) and one providing insignificant results (Pangarkar & Klein, 2001). Two other studies did not advance a specific hypothesis in this area, but found support for a positive relationship (Shane, 1994, Chen & Hu, 2002). So, of the thirteen studies that investigated this relationship, four found support for a negative relationship between CD and equity entry modes, six found support for a positive relationship and three did not find any significant results.

Of the ten studies that offered confirmation for either a negative or a positive relationship between CD and the choice between equity or non-equity entry modes, two (Davidson & McFetridge, 1985 and Kim & Hwang, 1992) found some support for the impact of **country** differences on entry mode choice. However, these country differences were defined in a very broad way, including political, economic, language and religious differences rather than cultural differences alone. As our discussion in Appendix 1 shows, Fladmoe-Lindquist & Jacque's (1995) results appear to have been caused by an inappropriate sampling technique, while Shane's (1992, 1994) statistical models did not appear to be supported by his descriptive data. In Chen & Hu's (2002) study, one of the two entry mode options, a wholly owned subsidiary (WOS), was simply not available in the host country in question for 42 of the 49 years covered by the study and hence any results are questionable. When comparing domestic and international alliances, we argue that the preference for equity-based entry modes in international alliances as found by Sengupta & Perry (1997) and Chen (2002) could very well be due to differences in legal systems – which might make drawing up contracts more difficult – or to any other difference between international and domestic alliances rather than to cultural differences. In Taylor et. al.'s (1998) study, similarity or distance on any country-related dimensions or other host country specific factors which are correlated with cultural similarity or distance – which were not included as control variables – could explain the preference of American companies for contractual agreements in Canada and the UK and equity investments in more culturally distant countries. Arora

& Fosfuri's (2000) study did a better job in including a number of host country control variables that could be expected to be correlated with CD. However, this study was limited to one industry only and the overall explanatory power of the statistical models was rather limited.

What we can probably conclude from this collection of studies is that country differences *do* have an impact on entry mode choice. However, the evidence for a positive impact of country differences on equity-based investment is equally strong as the evidence for a negative impact. Moreover, in most studies host country specific factors are an equally likely if not more likely explanation than country differences. Finally, and most importantly given the focus of this article, none of these studies provides us with unambiguous evidence that it is cultural differences which are most important in this respect. In fact Pangarkar & Klein's (2001) study – which included a large number of developed countries as both home and host countries – showed that they are probably not. The countries included in this study were quite distant from each other on Hofstede's cultural dimensions, but did not differ much in terms of country risk, government restrictions, GDP (growth) and other host country factors that might be correlated with CD. Pangarkar & Klein's study therefore offers an excellent opportunity to test the effect of CD in isolation. As is indicated in Appendix 1, it did not find any support for a relationship between CD and the choice between equity and non-equity modes of entry.

CHOICE BETWEEN FULL CONTROL AND SHARED CONTROL

Thirteen studies have investigated the impact of CD on this choice, usually comparing WOS with JVs. A comprehensive review of all of these studies can be found in Appendix 2. As was the case with the studies that looked at the choice between equity and non-equity entry modes, the majority of these studies used secondary data. Only three studies were based on primary data, while two studies combined primary and secondary data. Seven of the studies focused on one home country only: U.S. (3), Japan (2), Netherlands (2), while five studies focused on one

host country only: China (3), U.S. (2), Japan (1). Only one study (Brouthers & Brouthers, 2001) included multiple home and host countries.

As was the case with the impact of CD on the choice between equity and non-equity based entry modes, there are two opposing theoretical arguments based on transaction cost analysis (TCA). According to the first argument, CD influences the investing firm's perception of costs and uncertainty. This would lead MNCs to prefer low-commitment entry modes in countries that are culturally distant from their own and hence JVs would be preferred over WOS, because they limit their exposure to risk and uncertainty. Furthermore, unfamiliarity with the local environment caused by CD might cause a need for a local partner that can provide this knowledge. On the other hand, CD increases the costs and uncertainty involved in working closely with foreign partners as is the case in JVs. In that case WOS might be more appropriate to allow easy application of organizational routines developed in the home country. This would be particularly important for Japanese MNCs, given the importance they attach to transferring their unique system of management.

Studies investigating the impact of CD on the choice between shared and full control modes reflect the conflicting theoretical propositions identified above. Nine studies predicted a positive relationship between CD and shared control. Of these nine studies, six found their hypotheses confirmed (Gatignon & Anderson, 1988; Kogut & Singh, 1988; Agarwal, 1994; Barkema & Vermeulen, 1997; Hennart & Larimo, 1998; Brouthers & Brouthers, 2001), two found support for the opposite relationship (Pan, 1996; Anand & Delios, 1997) and one found insignificant results (Luo, 2001). Another study (Erramilli, 1991) did not predict any relationship, but found a positive relationship between CD and shared control. Only one study (Padmanabdan & Cho, 1996) predicted and found a negative relationship between CD and shared control. Chen & Hu (2002) investigated the impact of CD without predicting the direction of the relationship and found non-significant results. A final study (Bell, 1996) both predicted and found a curvilinear relationship between CD and shared control: JVs were more likely at both low and high levels of CD. So

of the thirteen studies that investigated this relationship, seven found support for a positive relationship between CD and shared control, three found support for a negative relationship, one found support for a curvilinear relationship and two studies did not find any significant relationship between CD and shared control.

However, it would appear though that few of the significant results hold up to closer scrutiny. In several studies (Gatignon & Anderson, 1988; Padmanabdan & Cho, 1996; Anand & Delios, 1997) geographic distance would seem an equally likely – if not more likely – candidate to explain the relationship that was found. Many studies (Gatignon & Anderson, 1988; Erramilli, 1991; Padmanabdan & Cho, 1996; Brouthers & Brouthers, 2001; Anand & Delios, 1997) provided evidence that entry modes differ by host country but were not able to provide unambiguous support for the fact that CD – rather than factors correlated with CD such as country risk, host government restrictions, market potential, availability of acquisition candidates or idiosyncrasies related to the Japanese market (Agarwal, 1994) – was the cause of these differences. The results of other studies (Kogut & Singh, 1988; Pan, 1996; Hennart & Larimo, 1998) appear to be caused by home country differences rather than cultural differences, while in the case of Barkema & Vermeulen's (1997) study, a lack of information on host country distribution makes it impossible to verify whether differences in Uncertainty Avoidance (UA) and Long Term Orientation (LTO, also called Confucian Dynamism, the "Asian alternative" to UA), rather than host country differences, were the cause of a preference for WOS.

The disturbing impact of home or host country differences is often aggravated by the fact that many studies (e.g. Kogut & Singh, 1988; Agarwal, 1994; Pan, 1996) are characterized by serious sample imbalances, where one to three countries with very strong preferences for a particular type of entry mode make up between 42% and 71% of the sample. Luo's (2001) study showed that when the sample composition is balanced there is no significant relationship between CD and the choice between shared and full control. A further characteristic of studies in this group is the almost blind confidence in the Kogut & Singh index of CD and in the absolute

validity of Hofstede's cultural dimensions. Except for Gatignon & Anderson (who use country clusters rather than a CD measure), all studies in this group rely on the Kogut & Singh index to measure CD. The reliance on Hofstede's cultural indices leads to counter-intuitive results that show that the US, Australia and Canada are culturally closer to Japan than Hong Kong and Singapore. The absolute desire to apply the Kogut & Singh index also seems to have led researchers to use flawed proxy data where actual scores for the Hofstede dimensions are unavailable. Pan (1996) and Chen & Hu (2002) used Taiwan as a proxy for China (even though Hofstede's own results - published in 2001 - show that the two countries differ substantially). Brouthers & Brouthers (2001) used culture measures for CEE countries from an unpublished MA thesis as part of the key independent variable in their study. Again Hofstede's (2001) results for these countries are substantially different. The study by Bell (1996) illustrates another drawback of the reliance on Kogut & Singh's index: the fact that it seems a poor predictor for the CD perceived by managers taking the entry mode decision. It is interesting that this study – which combines a balanced sample with a large number of host countries and inclusion of suitable host country control variables – comes up with the very plausible curve-linear relationship between CD and shared control.

CHOICE BETWEEN ACQUISITIONS AND GREENFIELDS

Seven⁵ studies have investigated the impact of CD on this choice. A comprehensive review of all of these studies can be found in Appendix 3. Similar to the studies that we have discussed for other entry mode decisions, the majority of these studies used secondary data. Only one study (self-reference) used a combination of primary and secondary data. Four of the studies focused on one home country only: Japan (3) Netherlands (1), while two studies focused on one host country: the US. Only one study (self-reference) included multiple home and host countries.

As was the case with the two earlier entry mode decisions, there are two opposing theoretical arguments about the impact of CD on the choice between greenfields and acquisitions. Ac-

According to the first argument, CD makes integration of existing management difficult (Kogut & Singh, 1988) and motivates MNCs to establish new ventures to allow easy application of management practices developed at home (Cho & Padmanabdan, 1995). On the other hand, when establishing subsidiaries in culturally distant countries, firms lack the necessary knowledge with regard to local political, cultural and societal norms. Involving a local partner via JV or acquisition reduces this initial barrier. Also, MNCs entering culturally similar countries are argued to use greenfield ventures to maximize firm specific advantages, while MNCs entering culturally distant countries perceive high levels of country risk and will therefore use acquisitions to reduce these risks (Brouthers & Brouthers, 2000).

Of the seven studies that have investigated the relationship between CD and the choice between greenfields and acquisitions, four (Kogut & Singh, 1988; Cho & Padmanabdan, 1995; Barkema & Vermeulen, 1998; Chang & Rosenzweig, 2001) predicted the first relationship: CD will lead to a preference for greenfields, while two studies (Anand & Delios, 1997; Brouthers & Brouthers, 2000) predicted the opposite relationship. The seventh and final study (self-reference) did not include a prediction for the relationship between CD and entry mode choice.

Four studies in this group showed a positive relationship between CD and the preference for greenfield investments over acquisitions (Kogut & Singh, 1988; Barkema & Vermeulen, 1998; Chang & Rosenzweig, 2001; self-reference), while the remaining three provided insignificant results (Cho & Padmanabdan, 1995; Anand & Delios, 1997; Brouthers & Brouthers, 2000). However, it would appear though that few of the significant results hold up to closer scrutiny. In all four studies the CD effect is equally likely to be a home country effect (Kogut & Singh, 1988) or a host country effect (Barkema & Vermeulen, 1998; Chang & Rosenzweig, 2001, self-reference). With regard to the home-country effect, British and Canadian companies have a well-documented preference for acquisitions, while Japanese companies tend to prefer greenfields. These preferences are stable and not host-country dependent. When dummy variables are included to reflect the differences between developed and less-developed host countries (self-

reference, Cho & Padmanabhan, 1995) or to reflect differences in markets for corporate control (Anand & Delios, 1997), the effect of CD disappears completely. When host countries are limited to countries that are similar in economic and political terms (Brouthers & Brouthers, 2000), the effect of CD is absent as well. We can therefore conclude that none of these studies has provided conclusive evidence of a relationship between CD and entry mode choice.

DISCUSSION AND RECOMMENDATIONS

Reviewing the three different areas of investigation: choice between non-equity and equity entry modes; choice between shared and full control; and choice between greenfields and acquisitions, there seems to be very little evidence that CD has much, if any, impact on decisions related to entry mode choice. We do not claim that CD does *not* have any impact on entry mode choice, but current studies certainly do not seem to have provided any conclusive evidence. So where do we go from here? Below, we will discuss some common flaws in the study of the impact of CD on entry mode choice, and suggest how this relationship could be studied in a more meaningful way. We deal with three major conceptual issues: the lack of convincing theory behind the impact of CD on entry mode choice, the importance of CD versus host/home country characteristics and the importance of CD versus other country differences. Finally, we look briefly into some empirical inadequacies of present entry mode studies.

THE IMPACT OF CD ON ENTRY MODE CHOICE: AN AREA VOID OF THEORY?

The studies discussed in this article are not generally characterized by a sophisticated theoretical grounding of their hypotheses with regard to CD. One reason for the relative lack of theoretical development in this area might be the single-minded focus on transaction cost analysis (TCA) as the main explanatory framework in entry mode studies. Economic theory and especially TCA has always dominated the FDI literature. It is therefore not surprising that when authors decided to include CD in their analyses, TCA was used to explain its impact on entry mode choice. Un-

fortunately, as Gatignon & Anderson (1988) already acknowledged, CD does not sit very comfortably within a transactions cost analysis. TCA can logically accommodate opposite predictions for the relationship between CD and entry mode, since through its impact on uncertainty and information cost, CD increases both transactions costs and the cost of internalization. TCA also does not seem to be able to convincingly distinguish between CD and other sources of uncertainty, such as political risk. We suggest that institutional theory, which has recently been linked to entry mode choice (Davis, Desai & Francis, 2000; Xu and Shenkar, 2002), might provide a more fruitful avenue for further theory development in this area. MNCs operate in a variety of institutional environments and have to comply with institutional pressures from both home and host countries. A high level institutional distance has been linked to the difficulty of both the establishment of legitimacy in the host country and the transfer of organizational competencies and practices (Kostova & Zaheer, 1999). According to Xu and Shenkar (2002) these two factors influence the choice of countries as well as entry mode choice (for a further discussion see the importance of CD versus other distance concepts).

Another possible reason for weak theoretical development might be that virtually all authors have used CD as a composite concept (see also Shenkar, 2001). This means that equal CD scores will be found for sets of countries that differ on completely different aspects of culture. This is problematic, since we could expect different dimensions of culture to have a differential impact on entry mode choice. Hofstede (2001) has argued for instance that Power Distance (PD) and Uncertainty Avoidance (UA) are particularly relevant for the functioning of organizations. PD is related to preferences regarding the distribution of authority, UA to the importance of rules and procedures (Hofstede, 2001:375), both of which might have important implications for the preference of certain types of entry modes (Hofstede, 2001:447). Differences in Masculinity versus Femininity (MAS) are even argued to be beneficial for cross-national collaboration (Hofstede, 2001:447). So further theoretical development in the area of CD and entry mode choice might

do well to focus on differences in individual cultural dimensions. Unfortunately, this increases the chances of idiosyncratic results due to imbalanced samples as we will see from the example below.

Barkema & Vermeulen (1997) investigated the impact of differences in individual cultural dimensions on entry mode choice and IJV survival, using secondary data for Dutch MNCs. They argue that differences in UA and LTO are most detrimental to the survival of IJVs, because they relate to very deep psychological needs concerning control and security (UA) and differences in objectives and perceived opportunities and threats (LTO), and that firms will therefore prefer WOS in countries that are very distant on these dimensions. Differences in PD, MAS and individualism (IDV) are expected to be less relevant for both IJV survival and choice. With regard to entry mode choice, LTO and UA were indeed negatively related to a choice for IJV, though for UA the one-tailed significance level was only $p < 0.10$, while the other dimensions had a significant positive impact on the choice for IJV. In general, significance levels for the cultural dimensions only just reached the 0.05 level and the correct classification rate of the logit model of 75.0% was only barely higher than the chance rate of 72.5%. With regard to IJV longevity, differences in UA and LTO did seem to have a negative impact on IJV longevity as expected, but contrary to the results for entry mode choice MAS had a significant negative impact, while IDV and PD had no impact. The differential impact of MAS, IDV and PD for two dependent variables that were argued to be closely related is worrying and begs the question whether sample composition and/or imbalance could provide an alternative explanation, especially since the IJV sample contained only 244 firms.⁶

Interestingly, a paper by Kaufmann and O'Neill (1999) comes to the exact opposite conclusion with regard to CD and IJV longevity. It finds that differences in the very dimensions that were *negatively* related to longevity in Barkema & Vermeulen's study (UA and MAS) are *positively* related to longevity. These diverging results are likely to be due to differences in sample composition. Kaufmann & O'Neill's study looked at 62 IJVs between U.S. MNCs and MNCs in 16

other countries. Although, like Barkema and Vermeulen, they did not publish the composition of their sample in terms of host countries, it is likely that a fairly large proportion of the IJVs were between U.S. and Japanese firms. IJVs with Japanese firms tend to be more stable (see Park & Ungson, 1997). The U.S. and Japan differ substantially in terms of UA, MAS and IDV, while their difference in PD is much smaller. It would therefore seem that it is the specific constellation of home and host countries that drives the relationship between any of Hofstede's cultural dimensions and IJV longevity and any further empirical work in this area should be mindful of the importance of home/host country effects and sample composition (see below).

A third and final reason for weak theory development might be the focus on simple linear models and specifically a lack of consideration of variables that might moderate the CD effect. One important potential moderator is international experience. For companies with a higher level of international experience, CD might have less impact on entry mode choice. Although some studies discussed in this article have included international experience (see Table 1), interaction effects were not investigated. Another important potential moderator is the international strategy that the MNC follows. Harzing (2002a) showed that global firms prefer greenfields and multi-domestic firms prefer acquisitions. The strategy followed might have an impact on the role of CD on entry mode choice as well. If MNCs follow a multi-domestic strategy and subsidiaries operate as stand-alone companies with little interaction or integration with HQ, CD might not be an important predictor for entry mode choice, while for MNCs following a global strategy it might be. Consequently, the role the new subsidiary is expected to play in the MNC network might be important as well. For subsidiaries which will be closely integrated in a web of relationships with both HQ and other subsidiaries and will perform important value-added roles, the level of CD might be an important decision criterion when choosing between high and low control entry modes, while for other subsidiaries CD is of limited importance in entry mode choice. In the former case, we might even have to consider the level of CD between the new

subsidiary and its intended major interaction partner, which might or might not be the MNC's HQ. Most of the entry mode literature has treated the internal functioning of the MNC as a black box and has implicitly limited its analysis to MNCs that in the international management literature have become known as global MNCs (Rugman, 2001). We feel that a more differentiated and sophisticated view of the MNC, which takes differences in HQ-subsidiary relationships and subsidiary roles into account (see e.g. Bartlett & Ghoshal, 1989; Ghoshal & Nohria, 1989; Birkinshaw, 1994; Harzing, 1999) would benefit further theory development in the entry mode literature.

THE IMPORTANCE OF CD VERSUS HOST/HOME COUNTRY CHARACTERISTICS

As we have seen in our review of studies in the field, home and host country characteristics would seem at least equally plausible as explanations for differences in entry mode choice as CD in many studies. With regard to host countries, political risk, economic development and host government restrictions would potentially seem to have an important impact on entry mode choice. A high level of political risk or more generally country risk is usually argued to lead to a preference for non-equity modes of entry or shared control in order to limit the risk involved (see for example Gatignon & Anderson, 1988; Kim & Whang, 1992; Bell, 1996; Barkema & Vermeulen, 1997), which also seems to be the preferred reasoning for the relationship between CD and the entry modes in question. A low level of economic development is commonly argued to lead to a preference for non-equity investment (because of the limited market opportunity) and greenfields instead of acquisitions (because of the lack of suitable acquisition candidates) (see e.g. Davidson & McFetridge, 1985; Cho & Padmanabhan, 1995), which also seems to be the preferred reasoning for the relationship between CD and the entry modes in question. Host government restrictions can force firms to accept shared ownership (JVs) while their preference is for full ownership or might preclude acquisition (see e.g. Gatignon & Anderson, 1988; Cho &

Padmanabhan, 1995; Bell, 1996; Padmanabdan & Cho, 1996). This also seems to be the preferred reasoning for the relationship between CD and the entry modes in question.

Political risk, economic development, host government restrictions and CD can be expected to be highly correlated, since countries that are culturally very distant from the home country (nearly always a developed Western country) of the investing firm – such as Asian, African, Eastern European and Latin American countries – are generally also countries with a high level of political risk, a low level of economic development and a high level of host government restrictions. This means that in studies that do not include these host country factors as a control variable, CD might well be a proxy for political risk, economic development and/or host government restrictions. In our review of studies in the field, we have identified many studies where this proxy effect might be present and showed that studies that included host countries that differed only on CD and not on other host country variables (e.g. Brouthers & Brouthers, 2000; Pangarkar & Klein, 2001), did not show a significant effect of CD on entry mode choice.

Future empirical studies investigating the impact of CD on entry mode choice should therefore include these host country variables as control variables or match host countries on these variables in order to keep non-cultural factors constant (Tayeb, 2001). The advantage of all three host country variables discussed above, is that they are measurable in a more objective way than culture and that recent data are easily available from secondary sources.

In addition to host country characteristics, home country characteristics would often seem to be at least an equally plausible explanation for differences in entry mode choice as CD. As early as 1980, Wilson for instance attributed the strong preference of British MNCs for acquisitions (46% of their entries were acquisitions rather than greenfields in comparison to 9% of the entries for Japanese MNCs and 28% for other MNCs) to their long tradition of a market for corporate control. This difference as well as the Japanese preference for JVs has been confirmed

over and over again (see e.g. Healy & Palepu, 1993; Anand & Kogut, 1997; Chang & Rosenzweig, 2001; Anand & Delios, 2002).

However, the studies we discussed have usually not identified these home country effects as an explanatory factor for differences in entry mode choice: differences were attributed to CD rather than to home country characteristics. All results found in these studies can be attributed to one of two factors. First, the difference in business systems – and more particular differences in markets for corporate control – between Anglophone countries (most notably the UK, the US and Canada) on the one hand and business systems in other countries included in the sample on the other hand. And second, differences between Japanese MNCs and MNCs from other countries (most notably the Anglophone countries). We would therefore like to encourage researchers in this field to be more sensitive to these home country effects as a potential explanation for FDI decisions and/or include home country as a control variable in their analyses.

THE IMPORTANCE OF CD VERSUS OTHER DISTANCE CONCEPTS

In early studies (Davidson & McFetridge, 1985, Gatignon & Anderson, 1988) the role of country differences in entry mode decisions was conceptualized using either country (cluster) dummies or a concept resembling psychic distance. Psychic distance had been introduced by the Uppsala school (Johanson & Vahlne, 1977) and in addition to cultural differences included differences in economic development, language, level of education and legal systems. Nordström & Vahlne (1992) explicitly mentioned that structural (legal and administrative) differences and language differences should be considered in addition to cultural differences. However, studies that investigated the impact of country differences on entry mode decisions quickly reduced psychic distance to CD. Kogut & Singh (1988) for instance claim that: “Cultural distance is, in most respects, similar to the “psychic distance” used by the Uppsala school” (Kogut & Singh, 1988: 430), while Shoham and Albaum (1995) mention that the term cultural distance is used interchangeably with the term psychological or psychic distance. Of the 27 studies included in Table

1 that were published after Kogut & Singh's seminal article, only 2 used country/region dummies (allowing for a broader range of country characteristics) rather than a measure of CD and only one study designed a scale to measure differences in cultural, political and economic conditions. All other studies focused on CD only and in the vast majority of cases used the Kogut & Singh (1988) index to measure CD (see below).

This singular focus on CD is unfortunate, because differences in legal systems or language for instance might well have an equally strong impact on entry mode decisions. In our discussion of the choice between contract and equity based JVs, we argued that this choice might very well be influenced first and foremost by differences in legal systems, not by differences in culture. Language differences are also a powerful and often neglected factor in international business (Feely & Harzing, 2002). Welch et al. (2001) argue that language might have a very important impact on the pattern of internationalization. Companies will prefer to enter countries with a common language before entering countries with different languages. One of the studies in our sample (Erramilli, 1991) studied foreign market choice in addition to entry mode choice and found that firms choose culturally similar foreign markets at low levels of international experience, but favor increasingly unfamiliar foreign markets at higher levels of experience. However, in Erramilli's sample the six most culturally similar countries to the U.S. were: Australia, UK, Canada, Switzerland, New Zealand, Ireland, five of which share the same language. Although only Davidson & McFetridge (1985) and Arora & Fosfuri (2000) have investigated the impact of language communality on the choice of entry mode⁷, it might very well be a significant factor in influencing entry mode choice. Of course language and culture are closely related (Harzing & Maznevski, 2002), but at the very least language differences should be included in the analysis.

Another distance concept which was not explicitly included in the original psychic distance concept, but has received considerable attention in recent years is the concept of institutional distance (Kostova, 1999; Kostova & Zaheer, 1999). Three aspects of institutions are distinguished: regulative aspects, as institutions set, monitor and enforce rules; normative aspects, as

institutions prescribe desirable goals and the appropriate means of attaining them; and cognitive aspects, as institutions influence the beliefs of actors (Scott, 1995) and institutional distance between two countries can be defined as the difference between the two countries in these three dimensions (Kostova and Zaheer, 1999). The normative and cognitive aspects of institutions are conceptually close to culture, but the regulatory component is unique to the concept of institutions (Kostova, 1999: 314), although of course it does parallel our concept of legal differences. The advantage of using institutional rather than cultural distance is that there is a well-established theoretical basis discussing the strategic implications of institutional distance for MNCs (see Xu & Shenkar, 2002 for a discussion). Xu and Shenkar (2002) also provide propositions with regard to the impact of various aspects of institutional distance on entry mode choice and link a high level of normative and cognitive distance to greenfield investments, a high level of regulative distance to minority ownership and a high level of normative distance to lower equity control (within either the majority or minority ownership category). Unfortunately, we do not yet have a commonly accepted operationalization of institutional distance, although some early attempts have been made (Busenitz et. al., 2000; Kostova & Roth, 2002). As Xu and Shenkar (2002) suggest, the institutional distance literature should try to learn from the CD literature and address the limitations present in the current measurement of CD (Shenkar, 2001).

A final distance concept that seems to have been all but forgotten in the entry mode choice literature is geographical distance, even though entry mode choice might be influenced to a considerable extent by this simple factor. Admittedly, this is most important for the choice between export and FDI. However, geographic distance might lead to a preference for more control through high control entry modes (FDI, full ownership or greenfields), since control through direct personal interaction is less easy to achieve in distant countries.⁸ And although geographical distance and cultural distance are highly correlated for some country pairs, they are completely unrelated for others. Australia is culturally similar to the US/Canada and the UK, but geographically very distant. Countries within Europe are geographically very close, but culturally very dif-

ferent. The problem with most of the studies discussed above is that they usually only included countries where geographical and cultural distance were highly correlated, by using the U.S. as home/host country and Europe and/or Japan as home/host countries. If CD is found to influence entry mode choice, would this relationship still be valid for countries that are culturally very distant, but geographically very close (e.g. France/Belgium as home countries and Germany/-UK/the Netherlands as host countries)?

For future empirical studies, we would therefore recommend the use of a broader measure of country differences, including legal/administrative, language and institutional differences as well as cultural differences. In addition, geographical distance should be included as a control variable or at least discussed as a potential alternative explanation. We have not discussed economic or political differences here, since in the previous section we already argued for the inclusion of economic and political variables such as GNP and country risk as host country control variables. A distinct advantage of language differences, legal differences and geographic differences over cultural differences is that they are generally easier to measure objectively, although as with cultural differences it might be the perceived differences that actually impact on entry mode choice.

EMPIRICAL INADEQUACIES

In addition to suffering from major conceptual problems, most studies of the impact of CD on entry mode choice are characterized by three empirical inadequacies as well: sample imbalances, reliance on one specific measure of CD and reliance on secondary data. This section will briefly review these problems and will also provide some recommendations for future research.

Sample imbalance and reliance on U.S. studies

The disturbing impact of home and host country differences as discussed above is often aggravated by the fact that many studies in this field are characterized by serious sample imbalances, in which a limited number of countries makes up half to three quarters of the sample. In this way

any home/host country idiosyncrasies will have a huge impact on the results. As we have seen in our discussion, idiosyncrasies of individual countries might be a powerful explanatory factor. This is particularly important in the case of Japan, a country that is included in many samples. Balanced samples are all the more important since, even though most of the studies use secondary data (see below), sample sizes are often quite small. A number of studies work with huge databases, but quite a few studies are based on fewer than 250 observations, while some have samples sizes of less than 100.

In addition to sample imbalances, samples tend to be seriously biased in terms of the home and host countries included. Nearly half of the 30 studies we discussed above included the U.S. as the only home or host country. In terms of home countries, studies in this field have focused on a very limited number of countries. In addition to the USA, Japan, the UK and the Netherlands are the only countries that feature in more than an incidental number of studies. Some studies that focused on Japanese MNCs showed that variables that had been important in explaining entry mode choice for American MNCs were not significant for Japanese MNCs. We should therefore be careful in generalizing results for American MNCs to a larger population. We still know very little about entry mode choice in European MNCs and Asian MNCs headquartered outside Japan.

We would therefore encourage researchers in this field to cast their net wider in terms of the home/host countries included in their samples and to give preference to MNCs from countries that have been underrepresented in previous studies. We realize that the difficulties associated with international research make this a difficult recommendation to follow. However, in order to make real progress in this field, we need to look beyond readily available databases.

Reliance on one specific quantitative measure of CD

We have argued above that the distance concept should be investigated from a broader perspective than CD alone. However, even if we would be willing to narrow it down to CD only, we feel that the way CD has been measured in entry mode studies is flawed. After Kogut & Singh's

(1988) seminal article, virtually every article used the Kogut & Singh index to measure national cultural differences.⁹ As Smith (2002:132) indicates: “The Kogut & Singh index has proved something of a magnet to researchers concerned with the choice of entry mode into a country and subsequent success or failure of MNCs and JVs”. Shenkar (2001) has identified a large number of flaws inherent in this index, which we will not reiterate here. From his discussion, however, it is clear that this index should never have achieved the almost mythical and unassailable status it seems to have in the entry mode literature. Of course the continued use of and the overwhelming number of references to this index¹⁰ has only reinforced its position.¹¹

Having found a convenient way to measure CD, authors in the field of entry mode choice kept using this measure in spite of the fact that its face validity is very low in some country comparisons. Padmanabdan & Cho (1996) for instance classify the US, Australia and Canada as culturally close to Japan and Hong Kong, the UK, and Singapore as culturally distant, a classification that is supported by the arithmetic of the measure, but would not seem to be very useful in explaining entry mode decisions. A mechanical application of the index can lead to very strange results. According to the calculations, the CD between Sweden and Japan is 2.5 times as large as the difference between the U.S. and Japan, and 8 times as large as the difference between countries such as Mexico and Japan. A desire to apply the Kogut & Singh index also seems to have led researchers to use seriously flawed proxy data where actual scores for the Hofstede dimensions are not readily available. Pan (1996) and Chen & Hu (2002) use Taiwan as a proxy for China. Brouthers & Brouthers (2001) use culture measures for Central and Eastern European (CEE) countries from an unpublished MA thesis as part of the key independent variable in their study. In both cases Hofstede’s own results for these countries – published in 2001 – are substantially different.

For future empirical studies, we would therefore like to encourage researchers to consider alternatives for the KS index. Alternatives could be based on secondary data from other culture studies (e.g. Trompenaars, 1997; Schwarz, 1999; House et al. 2002), but should preferably be

supplemented with a primary measurement of CD in the study in question (see below). In addition, researchers should consider carefully whether it is CD as such or a difference in *specific* dimensions of culture (see above) that is most important for the phenomenon under investigation.

Reliance on secondary data¹²

Although we encourage researchers to look for alternatives to the KS index, we have to take one step further and ask ourselves whether it is possible at all to measure CD based on secondary data unrelated to the study and sample in question. The very reason the KS index has become so popular is that it could easily be slotted into statistical models that were built using (large) databases derived from secondary sources. Only just over a quarter of the 30 studies we discussed in this article used primary data at all, and nearly all of those that did relied on secondary data (usually the KS index) to measure CD. Only three studies (Kim & Hwang, 1992; Bell, 1996; Taylor et al., 1998) made an attempt to measure the level of CD between home and host country directly.

Direct measurement of CD is very important, because it can be argued that it is the manager's *perception* of the level of CD between specific countries that influences the choice of entry mode (see Evans & Mavondo, 2002 for a similar argument with regard to psychic distance). Of course measuring CD is particularly difficult, even for researchers who are willing to collect primary data, since it would involve subjective measures and results would be likely to be contaminated by common method variance. Shoham & Albaum (1995) for instance, measure the impact of CD on perceived importance of export barriers, but since both CD and perceived export barriers are perceptual measures whose operationalisations seem to be rather closely related, it is not surprising that strong correlations were found. However, since the measurement of entry modes (e.g. JV, greenfield, acquisition, export, franchising) is relatively objective, common method variance would not normally be a major barrier in entry mode studies.

Direct measurement of CD is all the more important since scarce empirical evidence shows us that the correlation between perceived CD and the KS index of CD is very small indeed. Bell (1996) measured CD subjectively by asking respondents about the perceived CD between home

and host country and objectively by using the Kogut & Singh (1988) index. The correlation between the two measures of CD was only 0.347. Perceived CD can be different from CD based on Hofstede's dimensions (or other cultural dimensions for that matter) for a large number of reasons, many of which are discussed in some detail in Shenkar (2001). Education or extended working experience in a particular host country for instance will usually reduce the level of perceived CD, as will a large host country migrant community in the home country.

Most studies in this field have succeeded in completely removing the manager(s) who make(s) the entry mode decision from the equation. First, no researcher in this field has ever bothered to ask managers whether CD was a factor that influenced their entry mode decisions. Second, if experience with other cultures was included at all as an independent variable, it was aggregated at the company level. However, companies do not make decisions, individuals do, so with concepts as closely related to interpersonal interaction as CD, individual-level measures of CD should either replace or supplement measures based on secondary data.

CONCLUSION

In order to be able to advance scientific knowledge, researchers should consciously explore and critically evaluate alternative explanations of the phenomena under investigation. This article has argued that researchers in the area of entry mode choice have neglected this recommendation where it concerns the impact of CD. In virtually every study we discussed, variables other than CD would seem to offer at least an equally plausible and usually a more plausible explanation for any differences in entry mode choice. In addition, most articles were characterized by flaws in their measurement of CD and/or sample design. We suggested some ways in which research in this area could be improved. However, this would require a willingness of researchers in this area to let go of both a mechanistic view of CD and a preference for working with secondary data.

Researchers in the area of entry mode choice seem to have borrowed from cross-cultural management what was convenient – an index-score of CD to be used in conjunction with other

secondary data in large-scale regression models – but have conveniently ignored other developments in the field that take a far more sophisticated view of the impact of culture on management. They have also ignored the field of comparative management (see e.g. Whitley & Kristensen, 1996; Maurice & Sorge, 2000; Harzing & Sorge, 2003) which shows how country-of-origin has an impact on the functioning of not only domestic, but also multinational companies. Finally, inclusion of perspectives from the field of HQ-subsidiary relationships and subsidiary roles – which so far have been largely ignored in the entry mode choice literature – would further enrich the study of entry mode choice. If researchers in the field of entry mode choice are serious about investigating variables such as culture and other country-related differences, we would strongly encourage them to avail themselves of the wealth of knowledge that is available in these three fields of study.

In addition, we would like to repeat Harzing's (2002a) recommendation for more attention to the *management* of entry modes. The field of entry mode studies has a strong focus on factors influencing the *choice* of entry. In general, researchers in this field seem to stop at the foreign entry decision and seem unconcerned about the subsequent management of different entry modes. However, CD might have more impact on the *management* of different entry modes than on the *choice* of entry mode.

Finally, let us conclude by saying that we are delighted that the concepts of CD and culture have found their way into an FDI literature that has tended to focus on hard data and neglected soft issues such as culture. However, we would argue that neglect has been substituted by myopia. In their eagerness to include CD in their analyses, researchers in this field seem to have blinded themselves for other, more important, country related influences on entry mode choice and have settled for a very narrow view of culture. We could argue that to some extent the same is even true for the international business and international management literature in general. Although the inclusion of culture and CD has become very popular in areas as different as the investigation of national innovation patterns and the transfer of HR practices in MNCs, few

studies recognize that institutional factors such as government restrictions, legal frameworks, the market for corporate control and ownership structures could be as important as cultural factors. We certainly do not wish to advise researchers to give up the culturalist approach, but feel that an intelligent integration of culturalist and institutionalist approaches (see for example Sorge, 1995) is more likely to capture the complexity of the phenomena under investigation. Over thirty years ago Ajiferuke & Boddewyn (1970) already warned us not to limit ourselves to the cultural explanations in the area of comparative management. We argue that this warning is equally valid for international business and management.

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APPENDIX 1:

DETAILED DISCUSSION OF STUDIES ON THE RELATIONSHIP BETWEEN CD AND THE CHOICE BETWEEN NON-EQUITY AND EQUITY MODES OF ENTRY

CD ⇒ choice for non-equity investment

Davidson & McFetridge (1985)¹³ used secondary data to investigate the choice between licensing and FDI as a vehicle for international technology transfer. They looked at 1226 transactions of 32 US-based MNCs in an unspecified number of host countries during the 1945-1978 period and demographic similarity was positively related to FDI. Demographic similarity in this study was operationalized as language similarity and religion similarity and although these measures might be related to cultural similarity, they are not necessarily identical. Moreover, the measures used were very crude: English vs. not English and Protestant/Catholic vs. other religions.

Kim & Hwang (1992) conducted a survey to investigate the choice between licensing, JVs and WOS for 96 U.S. based MNCs in all major regions of the world. Location unfamiliarity was hypothesized to lead to a preference for licensing or JVs over WOS. This was partially confirmed by the fact that licensing was preferred over both WOS and JVs. However, it is questionable whether the concept of location unfamiliarity as it was defined and operationalized in this study is a true reflection of CD. First, the concept included previous experience with the host market and as such combines experience and distance concepts that are normally treated as separate variables. Second, it included political and economic differences as well as cultural differences, making it a much broader measure than CD.

Fladmoe-Lindquist & Jacque (1995) used secondary data to investigate the choice between franchising and equity-based control. They looked at 10,302 transactions of 12 U.S. based MNCs. At first sight their results appear to confirm the hypothesis that CD [measured using region dummies based on Ronen & Shenkar's (1985) study] is positively related to franchising. Sig-

nificantly more franchising is found in Japan, the Far East and the Latin American countries (which are all culturally distant from the US) and franchising is less popular in Latin European and Independent clusters (argued to be culturally more similar to the US)¹⁴. The only finding that contradicts their hypothesis is the fact that franchising is more popular in the combined Nordic/Germanic cluster as well. Closer inspection however, shows that the independent culture cluster only includes 10 observations, while all other clusters include 350 observations or more; the results for this cluster therefore seem to be too idiosyncratic to be included. Moreover, the remaining five country clusters differ significantly in their industry distribution. Four industries were included in this study: hotels, restaurants, merchandise and food. Hotels and merchandise generally have low franchise rates (around 30%),¹⁵ while restaurants and food have high franchise rates (85% and 100% respectively). Between 95% and 99.9% of the units in the Japan, Far East and Latin American clusters operate in these high franchise industries, while this is true for only 26% of the Latin European units. The “surprising” result for the Nordic/Germanic cluster might very well be explained by the fact that 74% of the units in this country were operating in high franchise industries. Since industry controls were not included in the analysis, the results might have been caused by a differential industry distribution rather than by CD. In general, one could question the validity of an analysis where more than three quarters of the observations falls in one industry (food), which moreover has a unimodal entry mode choice (100% franchise).

An even more serious problem is the fact that although the results of this study were based on 12 firms, the food industry (which as we mentioned before makes up more than three quarters of the sample) includes *only one firm*. This means that three quarters of the observations in this study are based on *one single firm*. Since all of the more than 5,000 service units of this single firm in the food industry were franchises, we have to conclude that this company has a policy to use franchising only. And since 98% of all observations for Japan and 79% of all observations

for the Far East were service units of this single firm, the CD effect for these countries might simply reflect one company's unimodal entry mode choice.

Arora & Fosfuri (2000) used secondary data to investigate the choice between licensing and WOS and looked at 2133 transactions of 153 chemical firms between 1986 and 1991. The sample included MNCs headquartered in North America, Japan and Western Europe and represented 60 host countries. In addition to CD, two variables which could be expected to have considerable impact on propensity to license - host country experience and the number of potential licensors - were included as independent variables. The authors also considered a large number of control variables, including several host country level variables that could be expected to be highly correlated with CD such as geographical proximity, language similarity, country risk and GNP. Including these control variables reduced the magnitude of the beta coefficient for CD, but CD remained significantly negatively related to WOS. The authors also realized that investments in Japan and U.S. investments in Canada might have influenced the results and excluded these countries in a sensitivity analysis. This reduced the magnitude of the beta coefficient further, but it still kept its negative and significant sign (no exact details about the level of significance were given though). This study therefore seems to offer convincing support for the proposed negative relationship between CD and equity-based entry modes. However, we should not forget that this study investigated firms in one industry only. Furthermore, the explanatory power of the models not including control variables was limited (70-71% correctly classified compared to a 66.7% chance rate). Finally, the authors did not disclose the explanatory power of individual variables such as CD.

CD ⇒ choice for equity investment

Shane (1992) used secondary data to investigate the choice between licensing and FDI. He looked at around 20,000 transactions for American MNCs in 33 host countries. The main focus of this study was the impact of PD on entry mode choice, but Shane included CD as a control

variable. He predicted a negative relationship with equity-based investment, but found a significant positive relationship. His results are slightly puzzling though, since an inspection of his descriptive results does not seem to reveal a strong relationship between CD and propensity to license. Although we did not have access to Shane's data and industry control variables, a zero-order correlation analysis of the rank order scores for CD and licensing propensity by country (provided in Table 1 of his article), showed no significant correlations. In addition, a partial correlation between CD and licensing propensity with PD held constant, showed no relationship ($p=0.371$) between the two concepts. Although Shane's dependent variable was the licensing propensity in all manufacturing industries at the 2-digit SIC codes in the countries under study and hence his sample size was much larger, we would have expected his results to replicate with a smaller sample size if they were robust. A further investigation of Table 1 shows that the 10 countries (out of the 33 included in the study) with the highest ratio of licensing over FDI consist of a very heterogeneous mix of four Latin American countries (Argentina, Brazil, Colombia, Venezuela), two very dissimilar Asian countries (India, Korea), two Northern European countries (Germany and Norway), one Southern European country (Spain) and Australia. The group with the lowest ratio of licensing over FDI is equally mixed. Furthermore, country pairs that show a near complete similarity on Hofstede's dimensions and hence are equally distant from the U.S. (e.g. Norway and Sweden, Australia and New Zealand, Portugal and Spain, Chile and Venezuela and the Netherlands and Norway) are at the complete opposite of the spectrum in terms of licensing/FDI ratio, with an average rank difference of 25. It would seem that CD bears little relationship to the licensing/FDI ratio.¹⁶

Shane (1994). This publication reports on the same study as Shane (1992), except that the Confucian Connection measure of Integration (see below) has been added as an alternative to PD. CD was again included as a control variable in the regression analysis that includes the Integration dimension¹⁷ (and is significant), but Shane no longer offered a prediction for its relationship with the propensity to license.

Sengupta & Perry (1997) used secondary data to investigate the choice between an equity JV or a contract-based alliance. They looked at 476 transactions of US-based MNCs entering into alliances with other US-based MNCs (328), Western European MNCs (76) and Japanese MNCs (76). Their hypothesis compared domestic alliances with alliances with Western European and Japanese MNCs and argued the US-Japanese alliances to be most likely to be equity-based, while the US-Western European alliances were expected to be more likely to be equity-based than US-US alliances. This would indirectly support the hypothesis that CD is positively related to equity-based entry modes. In their statistical analysis, however, CD was treated as an ordinal variable (US-US 0, US-WE 1, US-Japan 2). Although the statistics supported the assumption that CD was positively related to equity JVs, the difference was most striking between domestic alliances on the one hand and international on the other hand. The difference between US-Western European alliances (21.6% or 16/74 equity-based) and US-Japan alliances (28.4% or 21/74 equity-based) was small. The higher likelihood of equity JVs for international alliances (25% versus 10%) could very well be due to differences in legal systems – which might makes drawing up contracts more difficult – or to any other difference between international and domestic alliances, rather than to cultural differences.

Taylor et al. (1998) conducted a survey to investigate the choice between licensing/franchising, JVs and WOS. They looked at 165 American and 178 Japanese MNCs, although the statistical analysis was limited to 92 and 93 observations respectively.¹⁸ CD was measured subjectively with a four-item scale and was shown to be related to a preference for equity entry modes (JVs and WOS) over non-equity entry modes (licensing/franchising) for American MNCs. None of the independent variables included in the study had any significant impact on entry mode choice for Japanese MNCs. The authors concluded that the results show that American MNCs will be more likely to opt for contractual agreements with firms in the UK and Canada, while they will opt for equity-based entry modes in culturally distant countries. However, since they included few other host country variables and most notably excluded country risk, re-

restrictions on certain types of entry modes, geographical proximity, language similarity and legal similarity, this study can only unambiguously support the first conclusion: i.e. contractual agreements are more likely in some host countries (e.g. UK and Canada). It is not at all clear whether this is due to cultural similarity, similarity on other country-related dimensions, or even other host country specific factors that are correlated with CD.

Chen (2002) used secondary data to investigate the choice between equity-based and contract-based strategic alliances. He looked at 830 alliances between the U.S. and an unspecified number of host countries. International alliances made up 26% of the sample and were hypothesized to be more likely to be equity-based than domestic alliances, which would indirectly support the hypothesis that CD is positively related to equity-based entry modes. Support was found for this hypothesis, but since no other host country variables were included we cannot unambiguously conclude that choice of entry mode is related to CD rather than to other host-country variables. In addition, the preference for equity-based entry modes in international alliances could very well be due to differences in legal systems – which might make drawing up contracts more difficult – or to any other difference between international and domestic alliances, rather than to cultural differences.

Chen & Hu (2002) used secondary data to investigate the choice between contractual JVs and WOS and equity JVs and WOS. They looked at 470 transactions by MNCs from an unidentified number of home countries entering into China between 1949 and 1987. CD was positively related to WOS when choosing between contractual JVs and WOS. CD was calculated using Kogut & Singh's (1988) formula. This is puzzling since the 1980 Hofstede book the authors refer to did not contain data for China.¹⁹ In addition, other factors might explain the positive relationship between CD and the choice for WOS. According to the authors, China did not allow WOS until the early 1980s, so all WOS in their sample were established in the 1980s. The authors did not disclose the composition of their sample in terms of home countries. However, it is likely that investment by MNCs from culturally more distant countries such as the U.S. and Western

Europe happened mainly after the early 1980s and hence firms would be more likely to avail themselves of the opportunity to establish WOS. In order to assess the impact of CD on entry mode choice, the authors should have limited their analysis to the years for which a choice between the two entry modes that are contrasted was in fact possible.²⁰

Non-significant results

Contractor & Kundu (1998) used primary and secondary data to investigate the choice between management service contracts, franchising, partial ownership and full ownership for 1,131 hotels. Neither home nor host countries nor year of data collection were specified. A long list of independent variables was incorporated, including country risk, GDP and FDI/GDP. CD was hypothesized to be negatively related to high equity ownership, but the results were non-significant.

Azofra Palenzuela & Martinez Bobillo (1999) conducted a survey to investigate the choice between licensing and a shared owned subsidiary on the one hand and WOS on the other. They looked at 265 expansions of 40 Spanish firms in an unspecified number of host countries. Asset specificity, capital intensity, firm size, level of foreign dependence, country risk and CD were included as independent variables. CD was hypothesized to be negatively related to a high control entry mode, but the results were non-significant.

Pangarkar & Klein (2001) used secondary data to investigate the relationship between CD and the choice between equity and non-equity alliances. They looked at 2,407 alliances and only CD and the purpose of the alliance were included as independent variables. Only developed countries (Australia, Canada, France, Germany, Japan, Netherlands, Switzerland, UK, USA) were included in their sample, both as home and host countries. This contrasts strongly with the general sample pattern of one developed country (usually the US) investing in a mix of developed and developing countries. Pangarkar & Klein's sample includes countries that are quite distant from each other on Hofstede's dimensions, but do not differ much in terms of country risk, govern-

ment restrictions, GDP (growth) and other host country factors that might be correlated with CD. In contrast, most of the other studies include host countries that differ on all of these dimensions, but in general only include CD as an explanatory variable and do not control for other host country related factors. Pangarkar & Klein's study therefore offers an excellent opportunity to test the effect of CD in isolation. CD was hypothesized to be positively related to a high control entry mode, but the results were non-significant.

APPENDIX 2:

DETAILED DISCUSSION OF STUDIES ON THE RELATIONSHIP BETWEEN CD AND THE CHOICE BETWEEN FULL CONTROL AND SHARED CONTROL

CD ⇒ choice for shared control

Gatignon & Anderson (1988) used secondary data to investigate the impact of CD on entry mode choice (WOS, majority owned, 50%-50% and minority owned). They looked at 1,226 transactions of 32 US-based MNCs between 1945-1978. The authors hypothesized that CD would be negatively related to high control entry modes and used country dummies (Anglo, Latin American, Latin European, Germanic & other) to operationalize CD. In general, the study found very weak support for the proposed relationship, but stronger support was found for the impact of CD on the choice between WOS on the one hand and shared entry modes on the other. In comparison to the Anglo country cluster, entry modes in three of the four (Latin European, Germanic & other) other country clusters were more likely to be based on shared control. However, since the study used country clusters, rather than CD as such, as an independent variable, we can only conclude that WOS are more likely in some host countries than in others. The fact that the Latin American country cluster (that according to Hofstede's dimensions is more culturally distant from the U.S. than any of the other country clusters) is not significantly different from the Anglo country cluster in terms of entry mode choice, leads us to suspect that geographical distance might possibly be as important as CD as an explanatory variable. The authors' own conclusion was that: "Interestingly, sociocultural distance on the whole seems not to have a large impact [...]" (Gatignon & Anderson, 1988: 331).

Kogut & Singh (1988) used secondary data to investigate the choice between JVs, acquisitions and greenfields. They looked at 506 entry mode choices of MNCs from more than 15 home countries investing in the U.S. between 1981-1985 and found CD to be positively related to a choice for JVs when compared with acquisitions.²¹ We suggest, however, that these results may

be caused by home country characteristics and sample imbalances rather than the effect of CD. Although more than 15 home countries were included in the sample, half of the sample consisted of just two home countries: UK (28%) and Japan (23%). Japanese MNCs have a well-documented preference for JVs and greenfields, while British MNCs prefer acquisitions to any other entry mode (Wilson, 1980; Healy & Palepu, 1993; Agarwal, 1994; Anand & Kogut, 1997; Chang & Rosenzweig, 2001; Anand & Delios, 2002). This tendency is also present in this sample. Of the Japanese entries 40% are JVs, while this is the case for only 11% of the British entries. For acquisitions the picture is completely reversed, with 79% of the British entries and 31% of the Japanese entries being in the form of acquisitions. Since the CD between the UK and the U.S. is negligible on Hofstede's dimensions, while the CD between Japan and the U.S. is very large, the results with regard to CD could easily be explained in terms of home country preferences. When Kogut & Singh excluded Japan from the sample, the results became less significant. The remaining effect is probably due to the fact that British and Canadian companies are more likely to enter by acquisitions than any of the other (mostly continental European) companies.

Erramilli (1991) conducted a survey among US-based service firms to investigate the impact of experience on foreign market entry behaviour (host countries and year of data collection are not specified). Erramilli gathered 151 observations on the choice between full control (direct export, WOS) and shared control (export via intermediary, contractual entry mode, JV). CD was used as a control variable to operationalize the concept of market (dis)similarity and was found to be negatively related to full control. Without information about host countries it is difficult to assess the validity of this study's results with regard to CD. A preference for direct export (that makes up 31% of the entry modes) to Canada could for instance explain a large part of these results if a large part of the sample was made up of Canadian firms. Further, since no other host country (control) variables are included in the study, the CD effect could be due to any variable correlated with CD – such as country risk, host government restrictions, size of the market, geographical distance – that differs between countries.

Agarwal (1994) used secondary data to investigate the choice between joint and sole ventures. He looked at 148 entry mode decisions of U.S. MNCs between 1985-1989 in 20 host countries. The study hypothesized and found CD to be positively related to JV, but we suggest that this might be due to host country effects. Even though the study includes 20 host countries, Japan, the UK and Canada combined made up 42% of the total sample. The only host country in the sample that was represented by more than 10 observations and had a substantial number of JVs was Japan (82% of the entries were JVs). All other countries that were represented by more than 10 observations (Canada, France, Germany, the UK, Italy) had less than 14% JVs. The reason for preferring JVs in Japan might be completely unrelated to cultural difference (e.g. the need to have a JV partner to get into a tightly knit distribution channel, or government restrictions on WOS). Even if we would accept that it is CD that causes the high number of JVs in Japan, the impact of CD does not generalize to other countries. France and Italy (which based on Hofstede's dimensions are culturally quite different from the US) both have 13% JVs, while Canada and Great Britain which are culturally similar, have 14% and 10% JVs.

Barkema & Vermeulen (1997) used secondary data to investigate the choice between JVs and WOS. They looked at 828 foreign entries of 25 Dutch MNCs between 1966 and 1994. CD was found to be positively related to the preference of JVs over WOS. This study included host country GNP and political risk as control variables. However, no host country controls were included with regard to government regulations restricting ownership. WOS might be restricted in culturally distant countries such as Far Eastern, African and Latin American countries. The major focus of this study was an analysis of the impact of differences of *individual* cultural dimensions on the incidence of international JVs. Differences in UA and LTO were hypothesized and found to be negatively related to the preference for JVs (although UA was only significant at the 0.10 level), while differences in PD, MAS and IDV were positively related to the preference for JVs. In general, significance levels for the cultural dimensions only just reached the 0.05 level and the correct classification rate of the logit model of 75.0% was only barely higher than the chance

rate of 72.5%. Since no information was given with respect to the sample distribution in terms of host countries it is not possible to assess whether the results are due to a CD effect or to a host country effect.

Hennart & Larimo (1998) used a mix of primary (for Finland) and secondary (for Japan) data to investigate the choice between shared equity ventures and WOS. They looked at 401 entry mode decisions of Japanese and Finnish MNCs entering the U.S. between 1977/78 and 1993. Once calculated by means of the Kogut and Singh (1988) index, CD was reduced to a dummy variable that took the value of 0 for Japanese-owned ventures and 1 for Finnish-owned ventures. Japanese MNCs were shown to have a higher likelihood to enter the U.S. by means of JVs than Finnish MNCs, and according to the authors this provides support for the hypothesis that CD is positively related to a preference for JVs. We suggest that this only shows that Japanese MNCs are more likely to enter the U.S. by means of JVs than Finnish MNCs. This preference might be due to many other reasons other than CD. In order to provide support for a link between CD and a preference for JVs over WOS, host countries that are culturally distant from Finland and culturally similar to Japan would need to be included in the sample. The authors did recognize this limitation in their conclusions when they say: “Note that any other factor which is country-specific (and not controlled by our independent variables) could explain our results.” (Hennart & Larimo, pp. 534). We therefore suggest that the second part of the article’s title “Does National Origin Affect Ownership Decisions?” is a more fruitful way to look at entry mode decisions than investigating “The Impact of Culture on the Strategy of Multinational Enterprises” (the first part of the title). It is important to recognize that the two statements are not identical as countries differ on many more aspects than culture alone.

Brouthers & Brouthers (2001) conducted a survey to investigate the choice between JVs and WOS. They gathered information on 231 entries by Dutch, German, British and American MNCs in Hungary, Poland, the Czech Republic, Russia and Romania. CD was hypothesized and found to be positively related to JV. The relationship between CD and WOS was mediated by the

level of country risk. This study suffers from a number of problems that could invalidate its conclusions with regard to the impact of CD. First, the preference for JVs in culturally distant countries might be a host country effect. According to the measures used by the authors, Russia and Romania are culturally more different from the investing countries than Poland, Czech Republic and Hungary. Maybe WOS were restricted in these countries in the period under study. Second, the preference for JVs in culturally distant countries might be a home country effect. Germany is more similar to the Central and Eastern European (CEE) countries than the other countries on both IDV (relatively low) and UA (relatively high). Maybe German MNCs prefer WOS to JVs for reasons that are completely unrelated to the level of CD with the host country. Finally, the culture scores for the CEE countries were not based on Hofstede's original survey. They were drawn from an unpublished MA thesis and differ substantially from those published in Hofstede (2001).²²

CD ⇒ choice for full control

Padmanabdan & Cho (1996) used secondary data to investigate the choice between full and shared ownership. They looked at 839 entries of Japanese MNCs in 36 host countries between 1979-1992. CD was hypothesized and found to be positively related to full ownership. CD was operationalized in a rather crude way: countries were classified as either similar or dissimilar based on whether they were above or below the mean on Kogut & Singh's cultural distance scale. This led to anomalies such as the UK being classified as dissimilar to Japan, while Australia, Canada and the U.S. were classified as similar. Interestingly, however, the preference for full control in dissimilar countries becomes more pronounced if we change the group membership to dissimilar for the Anglo countries. Ideally, this study should have been conducted with the true CD scores rather than a crude classification, but it seems as if the relationship between CD and full control is plausible for Japanese MNCs. The countries where Japanese MNCs show a strong preference (70% of entries) for shared ownership (Korea, Taiwan, Thailand, Malaysia, Indonesia)

would seem to be culturally relatively similar to Japan, while countries where Japanese MNCs show a pronounced preference (72% of entries) for full control (US, UK, Canada) are culturally very different. However, geographical distance might also be a potential explanation for this difference. Furthermore, an equally pronounced preference for full control is also found in Hong Kong and Singapore, countries that according to common sense are culturally more similar to Japan than the Anglo countries, but according to Hofstede's dimensions are dissimilar from Japan. Host country specific factors, such as country risk, level of market development and government restrictions that are respectively high, low and high in the first group of countries and low, high and low in the two other groups of countries, might offer a better explanation of entry mode choice than CD.

Pan (1996) used secondary data to investigate the choice between different levels of ownership (majority or minority owned). He looked at 4233 equity JVs from 1979-1992 between MNCs from the US, Japan, Europe and Hong Kong and local counterparts in China. CD was measured by means of Kogut & Singh's (1988) index. However, since Hofstede did not collect data in China, Pan used Taiwan's scores on Hofstede's dimensions as a proxy for China.²³ CD was hypothesized to be negatively related to majority ownership, so more European and U.S. firms should prefer minority ownership than Japanese or HK firms. However, the study found the reverse relationship to be significant, although this result disappeared once interaction effects were included in the model. There were few differences between home countries in majority holdings (US: 17%, Europe: 17%, Japan: 19%, HK: 17%), but Japanese (36%) firms were much more likely than HK (17%) firms to prefer 50/50, while the same is true to a lesser extent for U.S. (27%) and European firms (30%). Japanese firms were less likely to prefer minority holdings (45%) than U.S. (56%), European (53%) and HK firms (66%). The strong preference of HK firms for minority holdings, their cultural similarity to China and the fact that they make up nearly two thirds of the sample has caused the relationship between CD and minority ownership to be significantly negative. However, this is unlikely to be the result of (a lack of) cultural differ-

ence, since Japanese firms that would normally be considered to be culturally closer to China than European and American firms show a pattern that is completely opposite to that of Hong Kong. Once again, sample imbalances have distorted the results. Also, industry distribution among the countries was quite different, but was not included as a control variable.

Anand & Delios (1997) used secondary data (from the same source as Padmanabdan & Cho, 1996) to investigate the choice between acquisitions, greenfields and JVs and looked at 1609 entry mode decisions of Japanese MNCs in East & SE Asia, Western Europe and North America. They did not advance a hypothesis about the impact of CD on the choice between full and shared control, but found CD to be significantly positively related to full ownership. Anand & Delios also included country dummies for the three regions included in the study (Asia, Europe, North America). Full control was more likely in Europe and North America, while JVs were more likely in Asia. As with the study above (Padmanabdan & Cho, 1996) which was based on the same data source, it is debatable whether differences in entry mode choice are really caused by CD, or whether geographical distance or host country differences such as country risk, level of market development or availability of acquisition candidates are more likely explanations.²⁴

Non-significant results or curve-linear results

Bell (1996) conducted a survey to investigate the factors influencing the choice between JVs and WOS and gathered information on 168 entry mode choices of 114 Dutch MNCs in 40 host countries. He both predicted and found a curve-linear relationship between CD and the likelihood of JVs. JVs were more likely at both low and high levels of CD, while WOS were more likely at medium levels of CD. To the best of our knowledge, this is the only study that has investigated a non-linear relationship between CD and entry mode choice. It is also the only study that used both subjective and objective measures of CD (as well as subjective and objective measurements of various political, legal and economic host country factors). Subjective CD was measured by asking respondents about the perceived CD between home and host country, while

objective CD was measured using the Kogut & Singh (1988) index. Interestingly, the correlation between the two measures of CD was only 0.347. It is very unfortunate that this study was never brought into the public domain.²⁵

Luo (2001) used both primary and secondary data to investigate factors influencing the choice between JVs and WOS and looked at 174 entry mode decisions of firms from 12 different home countries entering China. CD was measured using the Kogut & Singh (1988) index, but data on cultural dimensions for China were taken from Huo and Randall (1991) rather than using Taiwan as a proxy as was done by other studies.²⁶ Although Luo does not formulate a formal hypothesis with regard to the impact of CD on entry mode choice, he expects a positive relationship between CD and the likelihood of a JV. The results, however, do not show any significant relationship between CD and the choice between JVs and WOS. This finding contrasts with Pan's study which found a significant positive effect. However, as we have mentioned above, that study's result might well have been caused by a serious sample imbalance. Luo's study is characterized by a large number of home countries relative to the number of observations, so sample imbalances are much less likely. It would appear that in a balanced sample CD does not have an impact on entry mode choice.

Chen & Hu (2002) used secondary data to investigate the choice between contractual JVs and WOS and equity JVs and WOS and looked at 470 transactions of an unidentified number of home countries entering China between 1949 and 1987. We have criticized this study above on several counts, which made its results with regard to the impact of CD on the choice between equity and non-equity entry modes implausible. Its results with regard to the impact of CD on the choice between equity JVs and WOS were insignificant.

APPENDIX 3:

DETAILED DISCUSSION OF STUDIES ON THE RELATIONSHIP BETWEEN CD AND THE CHOICE BETWEEN ACQUISITIONS AND GREENFIELDS

CD ⇒ choice for greenfields

Kogut & Singh (1988) used secondary data to investigate the choice between JVs, acquisitions and greenfields. They looked at 506 entry mode choices of MNCs from more than 15 home countries investing in the U.S. between 1981-1985 and found CD to be positively related to a choice for greenfields. However, this relationship is only significant at a 0.10 level of significance and becomes insignificant when excluding Japan from the sample. Footnote 25 reports a colinearity of 0.81 between a Japan dummy and CD and Japanese MNCs have the highest relative preference for greenfields over acquisitions. MNCs in two countries with the lowest CD from the US: the UK and Canada, have the lowest relative preference for greenfields over acquisitions. The relationship between CD and greenfield entry might therefore well be due to a home country effect: Japanese (British/Canadian) MNCs have a higher (lower) than average preference for greenfields when entering into the US. However, we cannot conclude this is due to cultural differences unless we investigate entry mode choices of Japanese (British/Canadian) MNCs in culturally (dis)similar countries. Moreover, comparisons of acquisition activity by country of origin (see e.g. Healy & Palepu, 1993) suggest that these preferences are stable and not host-country dependent.

Barkema & Vermeulen (1998) used secondary data to investigate factors influencing the choice between greenfields and acquisitions. They looked at 829 foreign entries of 25 Dutch MNCs in 72 host countries between 1966 and 1994 and found CD to be positively related to greenfields. This study does include a fair number of relevant control variables at host country level that can be expected to be correlated with CD such as GNP, country risk and legal restrictions and as such we can have more confidence in its results with regard to CD than in the re-

sults of most of the other studies. However, even though 72 countries were included in this study, it does show serious sample imbalances; nearly 80% of the entries were made in North America or Europe. Although the European group was not further subdivided, we suspect that a large proportion of the entries in this group were into the UK, since the UK is traditionally one of the largest target countries within Europe in terms of FDI. Controlling for the size of the economy (% of GDP), acquisition activity is highest in the UK (1.3%), Canada (1.1%) and the U.S. (0.9%) (Healy & Palepu, 1993). This is confirmed by Table 1 in Barkema & Vermeulen's article, where the highest percentage of acquisitions is found in North America and Europe. The lowest percentage of acquisitions is found in Asia and Latin America. CD between the Netherlands and Europe and North America is much lower than CD between the Netherlands and Asia and Latin/South America. However, the higher acquisition activity in North America and the UK might well be due to the larger availability of suitable acquisition candidates, the more active and less restrictive stock markets and the dispersed ownership structures in those countries (Slangen and Hennart 2001) rather than to the lack of CD between the Netherlands and these countries. These factors are unlikely to have been fully proxied by control variables such as GDP and legal restrictions. The positive relationship between CD and greenfields might therefore be due to a host country effect.

Chang & Rosenzweig (2001) used secondary data to investigate the process of sequential FDI. They looked at 816 entries of 69 Japanese and 50 European firms in the U.S. between 1975 and 1992. As part of this study they investigated factors influencing the choice between three different entry modes: acquisitions, greenfields and JVs. CD was hypothesized and found to be positively related to greenfield entry. This study included a host of independent variables and applied proper controls and sensitivity analyses. However, its results with regard to the relationship between CD and entry mode choice are debatable. An analysis that replaced CD with country clusters shows that Japanese firms were significantly less and UK firms significantly more likely to prefer acquisitions. Japan made up nearly 60% of the total sample, while the UK

was the largest representative of the European group (18/50) and made up another 15% of the sample. According to Hofstede's measures Japan is the most culturally distant country from the US, while the UK is the culturally closest country. So what this study confirms is exactly the same as what was shown in Wilson (1980), Kogut & Singh (1988) and Healy & Palepu (1993): Japanese MNCs have a higher relative preference for greenfields than British MNCs.

Self-reference Our own study included CD as a control variable and showed that it was positively related to greenfields. This study was based on primary data and studied 287 entry mode decisions in 22 host countries by MNCs located in 9 home countries. However, the study did not include any host country control variables. Since most of the home countries are Anglo or North European and since there is a substantial proportion of less-developed host countries in the sample, the preference for greenfields could simply reflect a lack of acquisition candidates or a higher level of governmental restrictions in the more culturally distant countries. After dividing the host countries into three groups: developed Western, Asian (Japan, Singapore, Hong Kong) and Latin American (Argentina, Brazil, Mexico, Venezuela), we therefore ran some further statistical tests to verify this hypothesis. When these regions dummies were included in the logistic regression analysis, CD was no longer significant and the results showed that the likelihood of acquisitions was significantly lower in both Asian and Latin American countries (12% in Asia, 14% in Latin America and 40% in developed Western countries). Since eight of the nine home countries were developed Western countries, the degree of CD was significantly higher for Asian and Latin American countries than for developed Western countries (F-value 21.974, $p < 0.000$). The CD effect might therefore very well be a host country effect.

Non-significant results

Cho & Padmanabhan (1995) used secondary data to investigate factors influencing the choice between greenfields and acquisitions. They studied 756 FDI cases in 45 countries made by 402 Japanese MNCs between 1969 and 1991. CD was predicted to be positively related to greenfield

investments, but was not significant in any of the models included in the study. It is remarkable that the developed/less developed country dummy was the only one of the twelve independent variables that was significant in all seven models (and one of only four variables to show a 0.05 level of significance in *any* model). Even when the sample was divided into countries with or without host government restrictions or into culturally similar and dissimilar countries, the economic development dummy remained significant.

Anand & Delios (1997) used secondary data to investigate factors influencing the choice between greenfields and acquisitions and studied 1609 subsidiaries of Japanese MNCs in Western Europe, North America and Asia. CD was predicted to be negatively related to greenfield investments, but was not significant. Anand & Delios included region dummies in their model to “control for variance attributable to differences in markets for corporate control in Asia, North America and Western Europe” (p. 591). Acquisitions were argued to be more difficult in Asian countries, because many firms are privately held and equity markets are generally less active.

Brouthers & Brouthers (2000) used secondary data to investigate factors influencing the choice between greenfields and acquisitions and studied 136 manufacturing operations of Japanese MNCs in Europe. CD was predicted to be negatively related to greenfield investments, but was not significant. The sample was composed of six developed Western European countries only. It therefore avoided the effect of other studies where CD could be a proxy for political or economic differences.

Table 1: Key details of studies in the field of entry mode choice including cultural distance or culture as one of their independent variables

Study ²⁷	Dependent variable	Independent and control variables	Type of data	Home countries	Host countries	CD measure	Hypotheses/findings related to CD
Davidson & McFetridge (1985)	Choice between licensing and FDI as vehicle for international technology transfer.	Numerous independent and control variables including "cultural similarity".	Secondary, Harvard Multinational Enterprise Project, 1,226 transactions of 32 US-based MNCs during 1945-1978.	USA	Not specified; probably more than 10.	Language similarity, religion similarity.	Similarity of demographic characteristics is positively related to FDI while distance is negatively related.
Gatignon & Anderson (1988)	Choice between WOS, majority owned, 50%-50% and minority owned.	Independent: R&D intensity, country risk, advertising intensity, international experience, CD, size, host government restrictions.	Secondary, Harvard Multinational Enterprise Project, 1267 subsidiaries of 180 American MNCs between 1960 and 1975.	USA	No specified; Anglo, Latin American, Latin European, Germanic and "other" country clusters are included.	Ronen & Shenkar's country clusters.	CD is negatively related to high-control entry modes (<i>mixed support, support for choice between WOS on one hand and shared ownership on the other</i>).
Kogut & Singh (1988)	Choice between acquisition, greenfield or JV.	Independent: CD & Uncertainty Avoidance (UA). Control: Firm level (diversification, experience, size) and industry level (R&D and advertising intensity, manufacturing/service firms) variables. No info on operationalization of firm-level variables given in article.	Secondary, various sources, 506 entry mode choices between 1981-1985.	UK (28%), Japan (23%), Canada (9%) and more than 10 other countries, mostly West-European.	USA	Composite index of Hofstede's 4 indices.	CD will be positively related to a choice for JV or greenfield rather than acquisition.
Erramilli (1991)	Choice between full control (export channel, branch office, WOS) and shared control (export via intermediary, contractual, JV).	Independent: Length and scope of foreign experience. Control: Foreign production, CD.	Primary, mail survey, 151 observations (one per firm), year of data collection not specified.	USA	Not specified, probably more than 10.	KS 88 ²⁸¹	CD is negatively related to full control modes (<i>no hypothesis, CD was control variable</i>).
Kim & Hwang (1992)	Choice between licensing, JV and WOS.	Independent: Global concentration, global synergies, global motivations, country risk, location unfamiliarity, demand uncertainty, competition intensity, value of firm-specific know-how, tacit nature of know-how.	Primary, 96 U.S. based MNCs, entries after 1980, year of data collection not specified.	USA	All major regions of the world.	Scale consisting of experience with host country and perceived difference in cultural, political and economic conditions.	Local unfamiliarity will lead to a preference for licensing or JVs over WOS. (<i>preference was licensing over both JVs and WOS</i>).
Shane (1992)	Choice between licensing and FDI.	Independent: PDI Control: Cultural distance, market size (GNP), FDI restrictions, industry	Secondary, U.S. Commerce Dept. Benchmark surveys 1977/1982, 23,641/17,213 U.S. affiliates.	USA	33 countries.	KS 88	CD is negatively related to FDI (<i>no hypothesis, CD was control variable, opposite was confirmed</i>).
Agarwal (1994)	Choice between JV and sole venture.	Independent: CD Control/moderator: Multinationality, Technological intensity, size, country risk, market potential.	Secondary, Wall Street journal 1985-1989, 148 observations.	USA	20 countries, Japan, UK, Canada, France, Germany, Italy make up 77%.	KS 88	CD is positively related to JV.
Shane (1994)	Choice between licensing and FDI.	Independent: Power Distance (PD), Integration.	Secondary, U.S. Commerce Dept. Bench-	USA	33 countries (PD), 20 countries (Integra-	KS 88	CD is negatively related to the licensing ratio (<i>no hypothesis</i>).

¹ KS 88 stands for Kogut & Singh (1988) and refers to their composite index of cultural distance based on Hofstede's four dimensions: Power Distance, Uncertainty Avoidance, Individualism/Collectivism and Masculinity/Femininity.

		Control: Cultural distance, market size (GNP), FDI restrictions, industry.	mark surveys 1977/1982, 23,641/17,213 U.S. affiliates.		tion).		
Cho & Padmanabhan (1995)	Choice between greenfield and acquisition.	Independent: Firm size, investment size, diversification, relatedness of investment, IB experience, host country experience, R&D intensity, parent's market position, economic development, host policy, CD, time.	Secondary, Toyo Keizai Shinposha, 1992; 756 FDI cases by 402 Japanese MNCs between 1969 and 1991.	Japan	45 countries.	KS 88	CD is negatively related to acquisition entry modes (<i>not confirmed</i>).
Fladmoe-Lindquist & Jacque (1995)	Choice between franchising and equity-based control.	Independent: Geographical distance, CD, international experience, brand name asset specificity, political risk, currency risk.	Secondary (trade reports, annual reports), 12 U.S. based international service firms, 10,302 observations, late 80s/early 90s exact years not given.	USA	90 countries.	Region dummies based on Ronen & Shenkar (1985).	CD is positively related to franchising.
Bell (1996)	Choice between JV and WOS.	Independent: Global strategy, level of competition, industry growth, international experience, host country experience, product experience, relative size, asset specificity, reputation, cultural difference, host country risk, host government policy, level of welfare. Control: firm size, type of industry, type of activity.	Primary, 168 observations from 114 Dutch MNCs. Year of data collection not specified, probably 1994.	Netherlands	40 host countries.	KS 88 & perceived CD.	CD has a curve-linear relationship with the likelihood of JVs. JVs will be more likely at low and high levels of CD.
Padmanabdan & Cho (1996)	Choice between full and shared ownership.	Independent: Firm size, subsidiary size, diversification, international business experience, host country experience, R&D intensity, establishment mode, government restrictions, cultural similarity. Control: time	Secondary, Japanese Overseas Investment: A complete listing by firms and countries (Toyo Keizai, 1992), 839 observations between 1969 and 1991.	Japan	36 countries.	KS 88	CD is positively related to full ownership.
Pan (1996)	Level of foreign ownership (majority or minority owned).	Independent: advertising intensity, foreign capital input, country risk, EJV investment amount, EJV contractual duration, CD, competitive intensity, local partner state ownership, local partner alignment, foreign partner alignment, EJV location, home country.	Secondary, Ministry of Foreign Trade and Economic Cooperation, 4233 international EJVs from 1979-1992.	USA (549), Japan, (338) Europe (220), Hong Kong (2732), others.	China	KS 88	CD is negatively related to majority ownership (<i>opposite relationship was significant</i>).
Anand & Delios (1997)	Choice between acquisition, greenfield or JV.	Independent: Industry downstream, industry upstream, retail dummy. Control: CD, region dummies, subsidiary age & size.	Secondary, Japanese Overseas Investment: By Country (Toyo Keizai, 1994), 1609 subsidiaries.	Japan	East & SE Asia, Western Europe, North America.	KS 88	CD is positively related to both JVs and acquisitions (<i>no hypothesis, confirmation for JVs only</i>).
Barkema & Vermeulen (1997)	Survival and incidence of international joint ventures.	Independent: Hofstede's 5 dimensions (incl. LTO). Control: Host country experience, GNP per capita, country risk, firm size and profitability.	Secondary, 828 foreign entries of 25 Dutch MNCs between 1966 and 1994 of which 228 were IJVs.	Netherlands	72 countries.	KS 88, Euclidean index, Hofstede's scores + marginal propensity to save (LTO).	Differences in UA and LTO have a negative impact on IJV survival and incidence. Impact of CD on IJV survival has not disappeared over time.

Sengupta & Perry (1997)	Choice between equity joint venture or contract-based alliance.	Independent: National origin, function (upstream-downstream), Industry origin, technological intensity.	Secondary, ITSA (Information Technology Strategic Alliances), 476 observations of US-US (328), US-Western (76), US-Japanese (76) alliances in 1989.	USA	Japan, Western European.	N/A	US-Japanese alliances more likely to be JVs than US-Western European, which in turn are more likely to be JV than US-US alliances. (CD positively related to equity JVs).
Barkema & Vermeulen (1998)	Choice between start-ups and acquisition.	Independent: multinational diversity, product diversity, product relatedness. Control: ownership, ROE, Firm Size, CD, local experience, GNP, legal restrictions, country risk, time, firm dummies.	Secondary, 829 foreign entries of 25 Dutch MNCs between 1966 and 1994.	Netherlands	72 countries.	KS 88	CD positively related to start-up (<i>no hypothesis, CD was control variable</i>).
Contractor & Kundu (1998)	Choice between management service contract, franchising, partial ownership and full ownership.	Independent: country risk, CD, GDP per capita, FDI/GDP ratio, international experience, foreign property ratio, economies of scale, management & quality control, importance of size, reservation system & brand, investment in training.	Primary and secondary, 720 international hotels, year of data collection not specified.	Not specified.	Not specified.	KS 88	CD is negatively related to high equity ownership modes (<i>no support</i>).
Hennart & Larimo (1998)	Choice between shared equity ventures and wholly owned subsidiaries.	Independent: UA, PD, CD. Control: Diversification, R&D intensity, experience, firm size, growth of target industry, concentration ratio of target industry, natural resource intensity of target industry, greenfield vs. acquisition.	Secondary (Japan), Primary (Finland) 401 affiliates between 1977 and 1993 (Finland) and 1978 and 1993 (Japan).	Japan (266), Finland (135)	USA	KS 88	CD is positively related to shared equity ventures.
Taylor, Zhou & Osland (1998)	Choice between licensing/franchising, joint ventures and WOS.	Independent: uncertainty of demand, market attractiveness, CD, asset specificity, inability to receive a fair price, frequency of transactions, size of the firm.	Primary, 165 American firms, 178 Japanese firms, year do data collection not specified.	Japan, USA.	Not specified, 70% of the U.S. and 50% of the Japanese companies operated in more than 6 countries.	Four items with a 1-5 Likert scale, reliability 0.82.	CD is positively related to a high control entry mode.
Azofra Palenzuela & Martinez Bobillo (1999)	Choice between licensing and shared owned subsidiary on the one hand and WOS on the other.	Independent: asset specificity, capital intensity, firm size, level of foreign dependence, country risk, CD.	Primary, 265 expansion of 40 Spanish MNCs between 1991-1994.	Spain	Not specified, 3 cultural clusters are mentioned.	Country clusters: Anglo, Latin European, Latin American.	CD is negatively related to a high control entry mode (<i>not confirmed</i>).
Arora & Fosfuri (2000)	Choice between licensing and WOS.	Independent: CD, host country experience, number of potential licensors. Control: geographical distance, language, size, degree of multinationality, market size, tariffs, country risk, codifiable technology, complex technology.	Secondary, 2133 observations for 153 chemical firms between 1986-1991.	North America (68), Japan (32), Western Europe (53).	60 countries.	KS 88	CD is negatively related to the propensity to set up a WOS.

Brouthers & Brouthers (2000)	Choice between acquisition and greenfield.	Independent: relative size, technological intensity, multinational experience, market growth, CD, firm diversity, product relatedness, UA.	Secondary, Japan External Trade Organization (1994), Japanese manufacturing operations in Europe, 136 operations established after 1980.	Japan	United Kingdom, France, The Netherlands, Germany, Belgium and Luxembourg.	KS 88	CD is negatively related to greenfield entry (<i>not confirmed</i>).
Brouthers & Brouthers (2001)	Choice between JV and WOS.	Independent: CD, investment risk. Control: firm size, international experience, CEE experience.	Primary, 231 entries, Netherlands (91), Germany (59), UK (45), U.S. (36), data collected between 1995-1997.	Germany, UK, US, the Netherlands.	Hungary, Poland, Czech Republic, Russia, Rumania.	KS 88	CD positively related to JV. If country risk high, CD positively related to WOS. If country risk is low, CD negatively related to WOS.
Chang & Rosenzweig (2001)	Choice between greenfields, acquisitions and JVs.	Independent: 19 variables, including CD and country clusters.	Secondary, various sources, 816 entries of 69 Japanese and 50 European firms between 1975 and 1992.	Japan, UK, Germany, Switzerland, France, Italy, Belgium, Norway, Sweden, Denmark, Finland.	USA	KS 88	CD is positively related to greenfields.
Luo (2001)	Choice between JV and WOS.	Independent: perceived level of government intervention, property rights system and environmental uncertainty, knowledge protection, global integration, host country experience, project orientation, project size, project location. Control: CD, strategic intention.	Primary and secondary, 174 observations, data collected in 1995/1996.	USA, Hong Kong, Japan, Germany, Singapore, France, the UK, Italy, Taiwan, Australia, Canada, Korea.	China	KS 88	CD is positively related to JVs (<i>no hypothesis, CD is control variable, not confirmed</i>).
Pangarkar & Klein (2001)	Choice between equity and non-equity alliances.	Independent: CD, purpose of alliance.	Secondary, 2407 alliances between 1987 and 1992.	Australia, Canada, France, Germany, Japan, Netherlands, Switzerland, UK, USA.	Australia, Canada, France, Germany, Japan, Netherlands, Switzerland, UK, USA.	KS 88	CD is positively related to equity alliances (<i>not confirmed</i>).
Chen (2002)	Choice between equity-based and contract-based strategic alliances.	Independent: international vs. domestic alliance, munificence, dynamism and complexity of the environment, multi-industry alliance, multilateral alliance.	Secondary, various sources, 830 observations, 26% international alliances, 1994-1995.	USA	Not specified.	N/A	International alliances are more likely to be equity-based than domestic alliances.
Chen & Hu (2002)	Choice between contractual JV, equity JV and WOS.	Independent: CD, technology intensity, advertising intensity, host market potential by industry sector, host market potential by geographic region, capital intensity, planned duration.	Secondary, various sources, 470 observations 1949-1987.	Not specified.	China	KS88	CD is positively related to high control entry modes (<i>no direction for hypothesis was originally given, significant for comparison contractual/ JV/WOS only</i>).
Selfreference	Choice between greenfield and acquisition.	Independent: strategy (multi-domestic versus global). Control: R&D intensity, diversification, foreign experience, CD, relative size, year of investment.	Primary, 287 observations and secondary, data collected in 1995/1996.	USA, UK, Germany, France, Sweden, Finland, Netherlands, Switzerland.	22 host countries.	KS 88	CD is positively related to greenfields (<i>no hypothesis, CD is control variable</i>).

¹ We would like to thank two anonymous referees, the AIM editor – Joe Cheng – and the following manuscript readers for their constructive comments: Nancy Adler, Anthony Ferner, Niels Noorderhaven, Thomas Osegewitch and Richard Peterson.

² Please note that this article is not meant as a criticism on Hofstede's measures. Although his work has been heavily criticized, Hofstede's measures can be very useful in an appropriate context. They should, however, not be used blindly and indiscriminately as seems to have been the case in the field of FDI.

³ "This flaw is discussed by Slangen and Hennart (2001) in their survey of the literature on the choice between greenfield entry and entry through acquisition."

⁴ Our literature review was conducted by searching for the words culture and cultural distance using databases such as the Web of Science, Proquest and ABI/Inform and by checking the references of all the articles that we found in our search. We have included only published articles in our review. Working papers and conference papers should be considered as work-in-progress and it would therefore not be fair to criticize these papers.

⁵ The number of studies discussed adds up to 33 since three studies (Kogut & Singh, 1988; Anand & Delios, 1997 and Chen & Hu, 2002) discuss more than one aspect of entry mode choice.

⁶ One alternative explanation for the positive impact of UA on IJV longevity could be as follows. In a related study Barkema, Shenkar, Vermeulen & Bell (1997) investigated 244 IJVs between 1966 and 1994. CD – measured as KS index – was hypothesized to be negatively related to longevity, measured as the number of years that the venture persisted. Although they found confirmation for this hypothesis at the 0.05 level of significance, subsequent analysis showed that the impact of CD was only significant for developing countries (which the authors defined to include all countries outside the Germanic, Nordic, Anglo and Latin European clusters). A further analysis also showed that it is differences in UA rather than differences in any of the other cultural dimensions that were negatively related to IJV longevity. Although the authors did not test this, these combined analyses would lead us to conclude that it is only differences in UA between the Netherlands and developing countries that cause IJV failure. So within the group of developing countries, IJVs in countries with a higher difference on UA are less likely to show a high longevity. The authors do not provided a breakdown of their sample into host countries, but since the data are similar to that of a previous study (Barkema, Bell & Pennings, 1996) we can assume countries are located in the same 8 country clusters, of which the Far East, Japan, Latin America and Africa are defined as developing-country clusters. Countries with a large difference in UA score are mostly located in Latin America, while Indonesia is one of the countries with a small difference in UA score. Given the historical links between the Netherlands and Indonesia, it is likely that a lot of IJVs have been established between firms in these countries. This means that Dutch/Indonesian JVs might take up a large proportion of the 244 IJVs in the sample (and an even larger proportion of the IJVs in developing countries, which most likely lies between 45 and 100). Moreover, these JVs might very well have originated in the 1960s, the beginning of the data collection period. IJVs between Dutch and Latin American firms might only have taken of in a later period, e.g. the 1980s. Even if IJVs last for the same length of time, the longevity of Dutch-Indonesian IJVs would hence be higher than the longevity of Dutch-Latin American JVs, because they were established in different time periods. And since Latin American countries are very distant from the Netherlands in terms of UA, while Indonesia is very close, the relationship between UA and longevity might be a host country effect. Of course we cannot prove that an "Indonesia" effect can explain the results with regard to the impact of UA difference on IJV longevity in this study. However, the key point we want to make is that small and unbalanced samples are vulnerable to these idiosyncratic effects.

⁷ Both studies found a modestly significant positive impact of language similarity on equity entry modes.

⁸ Although developments in modern communication systems and the declining cost of international phone calls and travel have reduced the importance of geographical distance, it is not wise to discard this distance variable off-hand as unimportant.

⁹ Of the 27 articles published after Kogut & Singh (1988), only 4 did not use the KS index to measure CD. Fladmoe-Lindquist & Jacque (1995) and Azofra Palenzuela & Martinez Bobillo (1999) used country dummies, while Kim & Hwang (1992) and Taylor, Zhou & Osland (1998) used a subjective measurement of CD.

¹⁰ The Science Citation Index shows that, up to December 2002, the Kogut & Singh (1988) article has been cited well over 200 times (and the number of citations shows no sign of decline, with 28 citations in 2002 alone). The majority of these citations refers (only) to their index of cultural difference.

¹¹ For a similar process leading to the widespread acceptance of inaccurate figures for expatriate failure rates see Harzing (2002b).

¹² Although this section focuses on the problems of using secondary data for the measurement of CD, the reliance on secondary data in the field of entry mode choice in general means that researchers have usually focused on variables that are easily proxied by secondary data and have neglected potentially important variables such as MNC strategy and subsidiary roles.

¹³ Although strictly speaking this study does not investigate the impact of cultural distance (it looks at demographic similarity, measured as language and religious similarity) it has been included in the review, since it uses concepts that are often seen as either part of or related to cultural similarity.

¹⁴ Please note though that based on Hofstede's dimensions Latin European countries are as dissimilar from the US as Latin American countries.

¹⁵ These and the other figures were calculated from Table 2 in this publication. The total number of units in Table 2 (6,611) is much smaller than the total number of franchised units in Table 3 (10,302). The authors do not give an explanation for these differences.

¹⁶ The study included some further puzzling results. First, the fact that higher limitations on equity investments in a country actually led to a lower preference for licensing (and hence a higher preference for FDI). Shane left this result undiscussed. Second, on page 305 Shane reported two correlations coefficients, one positive (for 1977) and one negative (for 1982) and claims they are both in the predicted (negative) direction. The final sentence on this page mentioned a simultaneous introduction of the integration (INT) and PD variables, even though the variable Integration was not part of the study.

¹⁷ Shane decided to exclude the CD variable in the regressions with between PD and licensing ratio, because of the very high colinearity between PD and CD.

¹⁸ The authors did not offer an explanation for this nor were details given about the host countries involved.

¹⁹ It is likely that the authors followed Pan's (1996) example of using Taiwan's scores as a proxy for China. If this is true, they should at the very least have mentioned this in their article.

²⁰ This is in fact what they should have done for the analysis as a whole. If one of the entry modes options is not available for 42 of the 49 years covered by the study, it doesn't make much sense to try to investigate factors influencing the choice between that entry mode and another entry mode over the period as a whole. Sample idiosyncrasies of firms or home countries investing after 1980 are likely to interfere with all of the results found in this study.

²¹ Strictly speaking this study is therefore not fully comparable to other studies discussed in this section, since the comparison is not between shared and full control, but between shared control and one alternative of full control.

²² Only 8 of the 20 scores are within a range of +/- 5 of Hofstede's scores and 5 are even more than +/- 20 different (UA for Poland is 93 rather than 55; UA for Russia is 95 rather than 75; PD for Hungary is 46 rather than 19; PD for Czech Republic is 57 rather than 35; IDV for Hungary is 80 rather than 55). A recent study - based on Hofstede's value survey model - that included Poland, Hungary and the Czech Republic (Kolman et al., 2003) shows scores that are slightly different from Hofstede (2001), but in most cases differences from the scores used by Brouthers & Brouthers (2001) are even larger.

²³ Hofstede (2001) does include estimates for China and except for IDV/COL these are quite different from Taiwan. The exact figures are: PD: Taiwan 58, China 80, UA: Taiwan 69, China 30, IDV: Taiwan 17, China 20, MAS: Taiwan 45, China 66.

²⁴ Interestingly, this study shows that CD is significantly negatively related to the North American and European country dummies, so these regions are culturally closer to Japan than Asia. Although this sounds counterintuitive, this conclusion is verified by a country-by-country analysis. Using Hofstede's dimensions, the level of CD between Japan and U.S. (2.37), and countries such as Austria (1.41), Belgium (1.19), France (1.59), Germany (1.08), Italy (0.81), Spain (1.26), Switzerland (1.20) and the UK (2.75) is actually quite small. The only major differences are with the Netherlands (4.17), Norway (4.59), Sweden (5.78) and Denmark (5.81), which is more than anything due to the difference on the MAS/FEM scale (Japan is no. 1, while the other countries are the bottom 4). Within Asia, some countries such as Hong Kong (2.59) and Singapore (4.42) are actually more different from Japan than North American and European countries.

²⁵ The study concerns a PhD thesis completed at a Dutch university. Although - according to Dutch academic custom and requirements - a significant number of copies were published by the university, it has never been published by a commercial publisher, nor were the results published in academic journals.

²⁶ The Huo & Randall study includes two samples for China, which vary considerably in their scores for most of the dimensions, with an average difference of 40. It is unclear which of the scores Luo used and the vast difference in culture scores for the two samples makes the use of these dimensions for China questionable.

²⁷ Please note that many studies included independent variables other than CD. Our criticism only extends to their use of CD, although some comments on unbalanced samples would be relevant for other variables as well. Please also note that although most of these studies focused on entry mode choice only, some of these studies had more than one dependent variable. We discussed only entry mode choice in this article.