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International Market Entry: Does National Origin Affect Entry Mode Decisions?

2.1. Market entry and locational strategies

Competitive paper

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Abstract:
This article attempts to evaluate the impact of national context on the choice of market entry mode. A review of empirical studies dealing with national context and ownership decisions clearly reveals that the national origin of companies affects entry mode strategies. However, the incidence varies according to the assessment of national context, which suggests that some cultural and economic dimensions are more relevant for this field of research than others.

Key-words:
Market entry strategies, ownership decisions, national context, national culture.

INTRODUCTION

The choice of market entry mode has become a major field of interest in the international management literature. A review of theories and conceptual frameworks used for explaining ownership decisions has recently been established by Andersen (1997). The past decade has witnessed a multiplication of empirical studies focusing on entry mode decisions (e.g. Agarwal and Ramaswami, 1992; Brouthers, Brouthers and Werner, 1996; Buckley and Smith, 1996). However, most previous research on ownership issues is limited to entries of companies located in one single country, for example entry strategies of American companies (Gomes-Casseres, 1989; Kim and Hwang, 1992) and Japanese companies (Hennart, 1991; Hennart and Park, 1993; Hennart and Reddy, 1997; Padmanabhan and Cho, 1996). A comparison of the findings of these studies reveals that the influence of several explanatory factors is not identical, which raises the question of the incidence of the national origin of companies (Hennart, 1991).

Only recently, researchers have attempted to evaluate the impact of national context on the choice of market entry mode. This may be explained by the fact that data on market entries of companies located in different countries is not easily comparable. Moreover, assessing the multi-dimensional concept of national context is a difficult task. Whilst some authors rely on the nationality of companies, others concentrate on specific cultural or economic dimensions of national context.

A thorough analysis of available empirical research dealing with the influence of national context on the choice of market entry mode would help to better understand the importance of national origin, given that *«rarely do single experiments, or studies, provide sufficiently definitive answers upon which to base policy»* (Hedges and Olkin, 1982, quoted by

Wolf, 1986: 9). Yet, existing publications provide a relatively brief synthesis of available studies, which does not allow the comparison of their results. A cross-study examination would also assist in finding the dimensions of national context that are most adequate for studying the influence of national origin.

The purpose of this article is to examine the relationship between the national origin of companies and the choice of market entry mode. The first part introduces the empirical investigations identified and the dimensions used by the authors to assess national context. The second part presents a synthesis and analysis of the findings of these studies.

I. Empirical Studies Dealing with National Context and Entry Mode Decisions

A review of major European and American academic journals of business administration (Management International Review, Journal of International Business Studies, Strategic Management Journal, etc.) and publications has allowed to identify, in mid-2000, 13 empirical investigations that attempt to measure the impact of national context on the choice of market entry mode. All available studies that compare entry mode strategies of firms originating from at least two different countries are taken into account.

For each study, the following information has been collected:

1. Theoretical framework, underlying hypothesis, methodology and statistical analysis used;
2. Sample characteristics: number of entries, geographic origin of companies, foreign market(s) concerned, entry modes considered;
3. Mode of entry (instrumental dependent variable): modalities compared;
4. National context (instrumental independent variable): dimension(s) considered;

5. Results obtained: sign of incidence, significance of incidence, explanations and comments given by the author(s).

To examine the selected articles, we opted for a qualitative methodology rather than for a meta-analysis, given the objective of our research and the restricted number of studies taken into consideration. Indeed, a meta-analysis tends to loose its relevance whenever the number of available studies is small (Wolf, 1986: 54). Moreover, it does not allow the precision of a more qualitative method.

After a brief presentation of available studies, one needs to focus upon the dimensions used by the authors to assess national context.

1.1. Presentation of Selected Studies

Table 1 lists the 13 empirical investigations identified in the international management literature. An initial observation indicates that the research area is relatively recent (no study prior to 1988 has been found). It also appears that the samples used by the authors differ considerably in terms of size, geographic scope, and entry modes, which naturally requires extreme caution in making comparisons and generalisations regarding their results.

Table 1: Presentation of Empirical Studies Dealing with National Context and Entry Mode Decisions

Author(s) (Year of Publication)	Sample Used
Brouthers, Brouthers and Nakos (1997)	278 entries of 177 European companies in Central and Eastern Europe (154 entries of 103 Dutch companies and 124 entries of 74 German companies)
Buckley and Smith (1994)	Foreign market entries of U.S., Japanese, German, British, French, Dutch and Swedish companies
Erramilli (1996)	337 foreign subsidiaries of 29 multinational advertising agencies in Western Europe (217 subsidiaries of 19 American agencies, 75 subsidiaries of 5 French agencies, 34 subsidiaries of 3 British agencies and 11 subsidiaries of 2 other European agencies)
Hennart and Larimo (1998)	401 production subsidiaries of multinational firms in the U.S. (226 entries of Japanese companies, established between 1978 and 1987, and 135 entries of Finish companies, established between 1977 and 1993)
Kogut and Singh (1988)	228 entries of foreign companies in the U.S.
Kumar and Studnicka (1997)	17 subsidiaries of foreign firms in the Czech Republic (9 subsidiaries of German companies and 8 subsidiaries of American companies)
Meyer (1997)	576 entries of German and British companies in Central and Eastern Europe
Pan (1996)	4223 joint ventures of foreign companies in China (549 involve a partner from the U.S., 338 a Japanese partner, 220 a European partner, 2732 a partner located in Hongkong and 384 a partner located in another country)
Pan (1997)	4296 joint ventures of foreign companies in China (653 involve an American partner, 373 a Japanese partner and 3270 a partner located in Hongkong)
Pan and Tse (1997)	7818 entries of U.S., Japanese, Hongkong, German and British companies in China
Shane (1992)	Licensing agreements and foreign direct investments of U.S. companies in 33 countries
Shane (1994)	Licensing agreements and foreign direct investments of U.S. companies in 50 countries
Tse, Pan and Au (1997)	2998 entries of foreign companies in China (717 entries of Japanese companies, 861 entries of American companies, 860 entries of European companies and 560 entries of other Asian companies)

The methodologies employed in the selected studies are of a quantitative nature. Table 2 shows that the entry modes compared in the statistical tests differ from study to study.

In some studies, the variable «entry mode» is dichotomous, whilst in others it can take either three or more modalities.

Table 2: Market Entry Modes Compared in Empirical Studies Dealing with National Context and Entry Mode Decisions

Author(s) (Year of Publication)	Entry Modes Compared
Brouthers, Brouthers and Nakos (1997)	Shared-control (exporting, licensing, franchising and joint ventures) *vs.* full-control (wholly owned subsidiaries: 95% or greater equity)
Buckley and Smith (1994)	Exports *vs.* licensing *vs.* direct investments
Erramilli (1996)	Shared-control (contractual modes, subsidiaries owned at less than 50%, subsidiaries owned at 50%) *vs.* majority ownership (subsidiaries owned at more than 50%)
Hennart and Larimo (1998)	Shared-control (joint ventures owned at more than 10% and at less than 95%) *vs.* full-control (subsidiaries owned at more than 95%)
Kogut and Singh (1988)	Joint ventures *vs.* acquisitions *vs.* greenfield subsidiaries
Kumar and Studnicka (1997)	Joint ventures *vs.* subsidiaries owned at 100%
Meyer (1997)	Exports *vs.* contractual modes *vs.* direct investments
Pan (1996)	Joint ventures owned at less than 50% by a foreign company *vs.* joint ventures owned at 50% by a foreign company *vs.* joint ventures owned at more than 50% by a foreign company
Pan (1997)	Joint ventures owned at less than 50% by a foreign company *vs.* joint ventures owned at 50% by a foreign company *vs.* joint ventures owned at more than 50% by a foreign company
Pan and Tse (1997)	Export agreements *vs.* contractual joint ventures formed with a local partner *vs.* equity joint ventures formed with a local partner *vs.* equity joint ventures owned by foreign investors
Shane (1992)	Licensing *vs.* subsidiaries owned at more than 50%
Shane (1994)	Licensing *vs.* subsidiaries owned at more than 50%
Tse, Pan and Au (1997)	Exports *vs.* licensing *vs.* joint ventures *vs.* subsidiaries

1.2. Assessing National Context: A Variety of Dimensions

A major difficulty in evaluating the influence of national context on entry mode decisions is due to the multi-dimensional character of this concept. It is therefore necessary to indicate how national context is assessed within the selected studies. From this perspective, it would seem essential to observe that some authors refer to particular dimensions of national context in their hypothesis, but use the variable «nationality» as a proxy for national context. In order to compare findings of different articles, this research refers to the instrumental variables used in the statistical tests and not to the dimensions considered for the development of hypothesis or the interpretation of results.

Table 3 presents the dimensions of national context used by the authors. It clearly reveals that there is no consensus on the most appropriate dimension for the assessment of national context, even if some dimensions are more widely used than others. Seven studies use the nationality of companies as a proxy for national context, whereas six studies focus on particular factors.

Table 3: Dimensions of National Context Used in Empirical Studies Dealing with National Context and Entry Mode Decisions

Dimension Used / Author(s) (Year of Publication)	Nationality	Power Distance	Uncertainty Avoidance	Other Dimensions
Brouthers, Brouthers and Nakos (1997)			x	
Buckley and Smith (1994)	x			
Erramilli (1996)		x	x	x
Hennart and Larimo (1998)	x			
Kogut and Singh (1988)			x	
Kumar and Studnicka (1997)	x			
Meyer (1997)	x			
Pan (1996)	x			
Pan (1997)	x			
Pan and Tse (1997)	x			
Shane (1992)		x		
Shane (1994)		x		x
Tse, Pan and Au (1997)		x	x	

The cultural dimensions «power distance» and «uncertainty avoidance», as measured by Hofstede (1991, 1994), appear to be the most frequently used factors. The authors of these studies employ the indices reported by Hofstede for different countries. The Power Distance

Index (PDI) evaluates the manner in which power is distributed among organisational members at various hierarchical levels. In high-PDI societies, authority tends to be centralised and leadership likely to be autocratic, whereas in low-PDI societies, both authority and decision-making responsibility are more decentralised. The Uncertainty Avoidance Index (UAI) represents the degree to which members of a society are able to cope with the uncertainty of the future without experiencing undue stress. High UAI-countries are characterised by individuals with higher levels of anxiety who seek to avoid uncertainty, whilst low UAI-countries tend to be populated by individuals who accept uncertainty and are more willing to take risks (Hofstede, 1991, 1994).

Shane's (1994) research examines the incidence of a third cultural dimension, that is «the level of integration». This cultural factor refers to interpersonal trust and is measured by The Confucian Connections's integration index (a scale developed by Chinese scholars). One study also investigates the impact of the economic factor «home country market size» on the choice of market entry strategies (Erramilli, 1996).

According to the above table, available studies can be divided into two main categories: (1) studies focusing on the nationality of companies, and (2) studies concentrating on particular dimensions of national context.

II. The Impact of National Context on the Choice of Market Entry Mode

Since the findings of empirical investigations dealing with national context and foreign ownership decisions are likely to vary according to the assessment of national context, studies focusing on different dimensions will be examined separately.

2.1. Findings of Studies Focusing on the Nationality of Companies

Seven studies attempt to evaluate the influence of the nationality of companies on the choice of market entry mode. It is important to state that, except for Buckley and Smith (1994) who measure the breakdown of entry modes in the total foreign sales of each country (in terms of value), all authors concentrate on the frequency of entry modes. Table 4 indicates the relationship between the variables «nationality» and «market entry mode». It shows that the results of available investigations are not contradictory. The five studies testing the incidence of nationality on the choice of market entry mode reveal the existence of a relationship between the two variables, even if in three studies the significance varies according to the statistical tests conducted by the authors.

Table 4: The Incidence of the Nationality of Companies on the Choice of Market Entry Mode

Author(s) (Year of Publication)	Incidence
Buckley and Smith (1994)	(snt)
Hennart and Larimo (1998)	***
Kumar and Studnicka (1997)	(snt)
Meyer (1997)	(sv)
Pan (1996)	(sv)
Pan (1997)	****
Pan and Tse (1997)	(sv)

* => p<0.10; ** => p<0.05; *** => p<0.01; **** => p<0.001
(sv): significance varies according to statistical tests
(snt): significance not tested

The statistics provided by Buckley and Smith (1994) indicate that the relative importance of each entry mode varies according to the national origin of investors. Japanese, German and French companies show a distinct preference for exporting (approximately 80% of total foreign sales), whilst Dutch and American companies opt more frequently for direct investments (approximately 40% of total foreign sales). British and Swedish firms adopt an intermediate position. Moreover, significant differences are found by regions and individual countries of destination.

In the research of Hennart and Larimo (1998), the relationship between the nationality of companies (Japan *vs.* Finland) and the choice between shared-control (subsidiaries owned at less than 95%) and full control (subsidiaries owned at more than 95%) appears to be highly significant ($p<0.01$). The results indicate that Japanese firms more often choose shared control in comparison to their Finnish counterparts, at least when they enter the United States. This finding is consistent with the hypothesis that the cultural distance between home and target countries increases the likelihood that firms enter the target country with shared-equity ventures. Based on the index proposed by Kogut and Singh (1988), the cultural distance between Japan and the U.S. (3,11) is superior to the cultural distance between Finland and the U.S. (1,29). Conversely, this result fails to confirm the hypothesis that the likelihood of choice of shared-control increases when power distance and uncertainty avoidance are weak. For these two dimensions, the Japanese culture has a higher score (respectively 54 et 92) than the Finnish culture (respectively 33 and 59). The authors conclude that it is not the culture of the home country, but the cultural distance between home and target countries that determines the choice of market entry mode. However, they admit that their findings may be explained by other characteristics of the home countries examined, given that they have not tested the incidence of particular dimensions, but concentrated upon the nationality of companies.

The research of Meyer (1997) reveals that entry strategies of German and British companies in Central and Eastern European countries are not identical. German firms appear to have a higher preference for direct investments (compared to exporting and contractual modes) than their British counterparts. The author attributes the difference to the fact that the psychic distance (which covers geographic, cultural, legal, religious, linguistic, historical, economic and ethnic aspects) between Germany and Central and Eastern European countries is lower than that between Great Britain and Central and Eastern Europe. The statistical analysis is conducted for two samples: the first only concerns market-oriented entries without local production, the second covers the whole sample (market-oriented entries with local production, upstream and/or downstream sourcing). The statistical analysis demonstrates that the nationality of companies has a significant influence on the choice between contractual modes and direct investments ($p<0.05$ for the first and $p<0.0005$ for the second series of statistics). Conversely, its influence on the choice between exporting and direct investments is not significant. This suggests that the incidence of nationality varies according to the entry modes considered.

In his research, Pan (1996) compares equity joint ventures established by American, European, Japanese, and Hongkong firms in China. The figures presented reveal that, except for joint ventures owned at more than 50%, the distribution of capital varies according to the national origin of investors. Japanese firms are the ones that opt most frequently for 50-50 joint ventures, whilst firms from Hongkong are more likely to acquire minority equity stakes. American and European companies appear to be more flexible. The preference of Japanese firms for 50-50 joint ventures is explained by the predisposition of the Japanese to cooperate and the Japanese corporate network structure *(keiretsu)*, which promotes long-term cooperation and trustworthy relationships. In the statistical tests, the influence of the variable «nationality» varies according to the entry modes compared: its incidence on the choice between a 50-50 joint venture and a minority foreign share appears to be highly significant ($p<0.01$), whereas its incidence on the choice between a majority foreign share and a minority foreign share as well as on the choice between a majority foreign share and a 50-50 joint venture is not significant. These differences can be explained by the fact that the distribution of majority foreign shares is similar for the four countries/regions examined.

Pan (1997) compares equity joint ventures formed by U.S., Japanese and Hongkong firms in China. The statistical tests reveal that the nationality of companies has a significant influence on the distribution of capital ($p<0.001$). The presented figures indicate that the proportion of joint ventures owned at more than 50% is similar for the three countries. However, Japanese firms more frequently choose 50-50 joint ventures than their American and Hongkong counterparts, whilst firms from Hongkong are most likely to own minority equity stakes. American firms tend to adopt an intermediate position. According to Pan (1997), the observed differences may be attributed to several reasons: (a) the difference in the propensity of cultures to control uncertainty and to avoid risks (on the scale of Hofstede, Japan has a score of 92 and the U.S. a score of 46), (b) different reactions to political events in China, (c) the geographical proximity and perceived cultural affinity, (d) the present state of bilateral governmental relations, and (e) industry structure characteristics.

Pan and Tse (1997) examine the levels of control preferred by firms from Hongkong, the U.S., Japan, Germany and Great Britain in China. Only collaborative arrangements that involve two firms from these five countries are taken into consideration. According to the authors, the level of control grows as follows: export deals, contractual joint ventures formed with a Chinese firm, equity joint ventures concluded with a Chinese firm and wholly foreign-owned subsidiaries. The statistical tests show that compared with British firms, Hongkong, U.S., and Japanese firms are more likely to have a high-control mode of operation ($p<0.05$). For German firms, the difference is not significant. These findings suggest that companies from Hongkong, the U.S. and Japan have a higher tendency to control their operations in

China than their British and German counterparts, at least when they cooperate with other foreign firms.

The analysis of available results suggests that the nationality of companies affects the choice of market entry mode. Nevertheless, it is important to note that its influence varies according to the entry modes compared (Meyer, 1997; Pan, 1996) and according to the home countries taken into consideration (Pan and Tse, 1997).

2.2. Findings of Studies Focusing on Particular Dimensions of National Context

Most empirical investigations focusing on particular dimensions of national context are based on the research carried out by Hofstede (1991, 1994). One must first examine studies that rely on the incidence of «power distance» and «uncertainty avoidance» prior to analysing the influence of other dimensions.

Four studies measure the influence of «power distance» on the choice of market entry mode. Table 5 indicates the results of the statistical tests carried out by the authors. In each study, the incidence of power distance on the likelihood of choice of majority or full control as compared with shared control appears to be positive and significant. High power distance associated with centralised power and autocratic management style seems to increase the probability of choice of majority or total control of international operations. To sum up, the greater the power distance characterising a firm's home country culture, the more the company will seek to control its international expansion.

Table 5: The Incidence of Power Distance on the Choice of Majority or Full Control as Compared to Shared Control of International Operations

Author(s) (Year of Publication)	Incidence
Erramilli (1996)	(+)**
Shane (1992)	(+)**
Shane (1994)	(+)**
Tse, Pan and Au (1997)	(+)***

(+) positive incidence (-) negative incidence
* => p<0.10; ** => p<0.05; *** => p<0.01; **** => p<0.001

Based on a sample of foreign subsidiaries established by American, French, British and other European advertising agencies in Western Europe, the research carried out by Erramilli (1996) shows that high power distance increases the probability of choice of majority control (subsidiaries owned at more than 50%) as compared with shared control (contractual modes, subsidiaries owned at less than 50%, subsidiaries owned at 50%). The relationship between the variables «power distance» and «entry mode» is positive and significant at the 5% level. According to the author, managers from cultures characterised by high power distance have a preference for centralised authority and autocratic management and thus prefer to maintain control over their foreign operations. Since the study of Erramilli (1996) focuses on entries of American and European multinational advertising agencies, it is necessary to compare this result with other investigations.

The empirical studies of Shane (1992, 1994) focus on foreign market entries of U.S. companies. The statistical tests presented by Shane (1992) (one concerns the year 1977, the other one the year 1982) are consistent with the hypothesis that firms originating in countries characterised by high power distance experience higher transaction costs and therefore favour direct investments as compared to licensing agreements. The hypothesis is founded on the argument that high power distant societies exhibit less interpersonal trust and a greater need for organisational control on the behaviour of individuals. The relationship between the variables «power distance» and «market entry mode» is significant for both tests ($p<0.05$ in 1977 and $p<0.02$ in 1982). The author argues that firms originating from countries with a high PDI-index prefer direct investments, because they experience higher transaction costs. These findings are further confirmed by Shane (1994).

In their study of foreign business activities in China, Tse, Pan and Au (1997) demonstrate that a high power distance increases the likelihood of choice of capitalistic modes (equity joint ventures) as compared to contractual modes (e.g. exports, licensing). The relationship between the variables «power distance» and «entry mode» is significant at the 1% level. The authors argue that companies from large power distance countries tend to seek control by adopting equity-based modes, whereas firms from small power distance countries would be more open to collaborate on a contractual basis.

The findings of available studies allow to conclude that power distance affects entry mode decisions. High power distance appears to increase the probability of choice of majority or full control as compared to shared control of international operations, even if the sample and the modalities associated with the explained variable differ according to the investigations. The cultural dimension of power distance can thus be considered as a determinant of market entry mode choice.

Four studies test the incidence of the dimension «uncertainty avoidance» on the choice of market entry strategies. As in the previous studies, the authors rely on Hofstede's (1991,1994) indices. Table 6 presents the results of the statistical analysis conducted by the authors. It shows that the incidence of the variable «uncertainty avoidance» on the probability to choose majority or full control compared to shared control is not identical. Its influence is positive in two studies, whilst it is negative in the two other investigations. Moreover, the significance of the relationship between the two variables varies according to the studies.

Table 6: The Incidence of Uncertainty Avoidance on the Choice of Majority or Full Control as Compared to Shared Control of International Operations

Author(s) (Year of Publication)	Incidence
Brouthers, Brouthers and Nakos (1997)	(+) sv
Erramilli (1996)	(+)***
Kogut and Singh (1988)	(-) sv
Tse, Pan and Au (1997)	(-) ns

(+) positive incidence (-) negative incidence
* => p<0.10; ** => p<0.05; *** => p<0.01; **** => p<0.001
(sv): significance varies according to statistical tests
(ns): not significant

In their analysis of entries of Dutch and German companies in Central and Eastern Europe, Brouthers, Brouthers and Nakos (1997) demonstrate that the incidence of the level of uncertainty avoidance in the home country on the probability to choose full control (subsidiaries owned at more than 95%) as compared to shared control (exports, licensing, franchising, equity joint ventures) is positive, but not significant. However, the relationship between the variables «uncertainty avoidance» and «market entry mode» becomes significant when production operations are compared with market-oriented operations. For production operations, the relationship between the two variables is weakly significant ($p<0.10$), whilst it is significant at the 5% level for market-oriented operations. This suggests that the influence of uncertainty avoidance may become important in specific situations. The authors assert that uncertainty avoidance generally does not tend to affect ownership decisions, at least as far as entries of Dutch and German firms in Central and Eastern Europe are concerned. However, they admit that the results might be due to the fact that the two countries examined have similar uncertainty avoidance indices: the Netherlands obtain a score of 53 and Germany has a score of 65 (the scale ranges from 0 to 120).

The statistical tests carried out by Erramilli (1996) show that the relationship between uncertainty avoidance and the choice between majority or full control (subsidiaries owned at more than 50%) and shared control (contractual modes, subsidiaries owned at less than 50%, subsidiaries owned at 50%) is positive. In contrast to the previous study, the relationship appears to be highly significant ($p<0.01$). It is necessary to state that the values of uncertainty avoidance are fairly different for the countries taken into consideration: France obtains a score of 86, Italy 75, Switzerland 58, the U.S. 46 and the U.K. 35. The author contends that in international operations shared control causes more uncertainty than does majority or full control. In the latter, a company can more easily impose its own style of management. This would explain why firms from high uncertainty avoiding cultures more frequently seek to control their foreign operations. Conversely, firms originating from countries with low uncertainty avoidance may feel secure enough to be more tolerant of other cultures, and therefore be more willing to share power.

Based on a sample of foreign companies entering the U.S. market, the statistical analysis presented by Kogut and Singh (1988) confirms the hypothesis that the greater the uncertainty avoidance characterising a firm's home country culture, the more managers tend to form equity joint ventures ($p<0.001$) or wholly owned greenfield subsidiaries ($p<0.05$) as compared to acquisitions. Since the sample used by the authors includes Japanese firms whose propensity to control for uncertainty is particularly high, statistical tests have also been carried out on a subsample of data (excluding Japanese firms). In these tests, the incidence of uncertainty avoidance on the choice of equity joint ventures as compared to acquisitions is positive, but not significant, whilst its incidence on the choice between wholly owned greenfield subsidiaries and acquisitions is positive and significant at the 5% level. The authors assert that these differences are partly due to the reduced size of the subsample. Kogut and Singh (1988) conclude that national attitudes towards uncertainty avoidance influence entry mode decisions. They argue that acquisitions confront firms with greater uncertainty over the management of foreign operations. Therefore, companies from countries characterised by relatively high uncertainty avoidance would consider acquisitions as a less attractive entry mode because of organisational risks associated with the integration of a foreign entity and thus prefer to establish wholly owned greenfield subsidiaries.

In the research of Tse, Pan and Au (1997), the incidence of the propensity of a culture to avoid uncertainty on the probability to choose capitalistic modes (equity joint ventures, subsidiaries) as compared to contractual modes (e.g. exports, licensing) is negative, but not significant. This finding raises the question whether the cultural factor «uncertainty avoidance» is appropriate for this field of research, for in the same study, the link between the variables «power distance» and «entry mode» is highly significant ($p<0.01$).

The comparison of available findings shows that the sign and the significance of the relationship between the variables «uncertainty avoidance» and «entry mode» vary according to the studies examined. These differences, which may be partly due to the samples used by the authors, question the relevance of this cultural dimension. In fact, in Hofstede's investigations, this factor was essentially measured by questions concerning anxiety, stress and job security. Therefore, the scores obtained by different countries do not necessarily reflect the perception of managers as far as uncertainty and risk of international operations are concerned.

In his research, Shane (1994) also examines the incidence of a third cultural dimension, that is «the level of integration» (interpersonal trust). The statistical tests reveal that the higher the integration level of a culture, the more firms tend to favour licensing agreements as compared to direct investments. The author argues that managers from high trust cultures perceive lower transaction costs than those operating in countries characterised by a low integration level. He carries out two series of statistical tests: the first concerns the year 1977, the second the year 1982. The relationship between the variables «integration level» and «entry mode» is significant for 1982 ($p<0.02$), but is not significant for 1977. This suggests that the existence of a link between the two variables depends upon the observation period. The author compares these findings with those obtained for «power distance» and concludes that the higher the level of trust is in a given culture, the more its managers are willing to engage in licensing agreements as compared to direct investments.

Erramilli (1996) also examines the impact of home country market size (measured by the total annual advertising expenditures of the home country) on the choice of foreign entry mode. The author refers to the analysis presented by Porter (1990) and considers that firms operating in large markets (such as the U.S.) have a competitive advantage. He mentions a study carried out by Lall and Siddharthan (1982) showing that, in order to exploit their competitive advantage, firms originating from countries with large domestic markets are more likely to engage in foreign direct investment compared to those originating in small-market countries. Erramilli (1996) expects that, for similar reasons, firms based in large markets would tend to seek majority or full ownership rather than shared ownership. The statistical tests carried out on a sample of American, French, British, Italian and Swiss companies validate this hypothesis ($p<0.05$). However, the observed differences are less evident as the parent firms become larger. This means that the explanatory power of home market size is greater for smaller firms than it is for large multinational companies.

Among the cultural and economic dimensions analysed, power distance appears to be the most appropriate dimension to explain foreign ownership decisions. The four studies that test the influence of this variable on the choice of market entry mode lead to the same conclusion: a high power distance increases the likelihood of choice of majority or full control as compared with shared control of international operations. The relationship is significant at least at the 5% level. Conversely, for uncertainty avoidance, the results appear to be contradictory, which questions the pertinence of this cultural factor in ownership decisions. Finally, it is difficult to generalise the incidence of the dimensions «integration level» and «home market size», for each of them has only been examined in one single study.

The cross-study examination presented in this research suggests that the national origin of companies affects the choice of market entry mode. However, findings vary according to the definition of the explanatory variable. Empirical investigations dealing with the incidence of the factors «nationality» and «power distance» lead to concordant results, whereas the impact of the cultural dimension «uncertainty avoidance» seems ambiguous. In the same way, when the indices reported by Hofstede (1991, 1994) are applied to the countries examined in studies focusing on the nationality of companies, it appears that certain results are not consistent with those obtained for particular dimensions of national context. This raises the question whether it is appropriate to rely on Hofstede's indices. The research carried out by the author is certainly useful for international comparisons, for it allows to assign specific values to more than fifty countries. However, the dimensions of cultural differentiation need to be interpreted with caution. Because of the bias inherent in Hofstede’s studies, it seems necessary to compare the results to other investigations in the international management field. Finally, the comparison of different studies shows that it is preferable to assess national context by using several dimensions rather than relying upon one single factor.

CONCLUSION

This article has attempted to provide an insight into empirical studies dealing with national context and the choice of market entry mode. A thorough examination of the literature reveals that measuring such a multi-dimensional concept is not an easy task. The analysis suggests that is most appropriate to rely on the nationality of companies or to combine several factors. Moreover, it appears that some dimensions are more relevant for this research field than others. In fact, the cultural dimension «power distance» leads to fairly concordant results, whereas the variable «uncertainty avoidance» remains ambiguous. «Power distance» can thus be regarded as a valid proxy for national context, at least as far as ownership decisions are concerned. Available results indicate that power distance generally increases the likelihood of majority or full control as compared to shared control.

The synthesis of existing studies highlights the importance of national context and clearly demonstrates that the national origin of companies affects entry mode strategies. It is consistent with recent studies that emphasise the impact of the national environment on strategic behaviour (Ill and Waring, 1999; Schneider and de Meyer, 1991). This perspective predicts that firms based in different countries will choose different strategies, contrasting the view that a firm’s strategy is mainly determined by global market forces.

The cross-study examination presented in this paper contributes to a better understanding of the influence of national context on entry mode decisions. It suggests several research directions. Firstly, the concept of national context needs to be clarified. Secondly, it seems important to integrate other dimensions of national context such as a country's institutional characteristics. Two recent studies focusing on interfirm linkages (including domestic operations) show that the institutional environment of companies affects the choice between cooperative alliances and mergers&acquisitions (Mayrhofer, 2000; Mayrhofer and Roth, 1999). Thirdly, more empirical investigations are necessary in order to determine the relevance of different factors. Fourthly, future research should integrate national context into explanatory models of ownership decisions and determine its relative importance. Finally, it would be interesting to evaluate how far national context affects other decisions concerning international market entry, for example the management of foreign operations.

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