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The influence of national culture and institutional forces on the choice of market entry mode: An analysis of Dutch MNEs

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ABSTRACT

Our research tests the relationship between national culture and institutional factors on the market entry decision of MNEs. We also include a range of control variables at country, industry and firm levels. Analyzing 474 entries by Dutch AEX-listed MNEs in 51 countries, we find that: (a) MNEs are more likely to choose a joint venture over an acquisition when entering a cultural distant country, supporting the arguments of Kogut and Singh (1988); (b) host country Power Distance and Individualism have a stronger influence on selecting full control modes; (c) Control of Corruption in the host country is an important institutional variable, more likely to lead to joint ventures than Greenfields; (d) high human development in the host country is more likely to lead to acquisition over joint venture. We contribute to the entry mode literature by showing how disaggregated cultural factors matter more to MNE entry mode decisions than disaggregated institutional factors, whilst also showing how economic development and levels of education in the host country play a vital role.

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1. INTRODUCTION

Considerable research has been conducted on the determinants of entry mode. However, the results have not always been consistent. Much entry mode research has focused on transaction cost theory when trying to explain the choice of entry mode of a firm. More recently, researchers have identified other important factors that influence the choice of entry mode. One important determinant that has been identified is the cultural characteristic of a host-country. Moreover, the cultural distance between home and host-country has been empirically shown to influence the mode of entry choice (Kogut and Singh, 1988; Erramilli, 1996). A second important set of determinants are institutional dimensions of countries (Delios and Beamish, 1999, Brouthers, 2002).

In our research we use both sets of determinants in one study to test the suggested relationship between national culture and institutional factors on the market entry decision of MNEs. We also include a range of control variables, including a measure of levels of education and human development in the host country as a potential predictor of entry mode. Given recent trends in globalization, technological development, the growth of the knowledge-based economy, and the emergence of new countries as sources of supply and demand (Archibugi and Iammarino, 2002; Audretsch and Thurik, 2001), we consider it necessary to reassess entry mode research to consider other variables at country, industry and firm level that have largely played only a passive role in previous research.

Our sample consists of 474 entries by Dutch AEX-listed firms conducted in a recent period: 2004-2007. We chose to test for three different modes of entry (joint venture, Greenfield and acquisition) because they require direct foreign investment (Davis, Desai and Francis, 2000). Some scholars identify exporting and licensing agreement as a mode of entry, but we will not include these in our research as they do not require the internationalization of large amounts of the firm's physical assets. Furthermore, most studies do not distinguish between three different modes of entries, but choose to test either joint venture over wholly-owned (Yiu and Makino, 2002) or Greenfield over acquisition (Slangen and Hennart, 2008).

The paper is structured as follows. The next section provides a literature review and theoretical framework for our research. Section 3 describes the methodology and operationalization used. Section 4 presents the results, followed by a discussion. Finally a conclusion is drawn and limitations provided. The main contribution of this paper is to highlight the importance of a spectrum of factors when considering expansion oversees. In today's highly globalized knowledge-based economy, it appears Dutch MNEs consider human development in the host country to be a critical part of the entry mode decision. Cultural and institutional factors are still important, but not as aggregate measures. Thus we find some support for models based on transaction cost logic and institutional theory, but extend this to include an economic development dimension.

2. LITERATURE REVIEW

2.1 Entry mode literature

Entry modes can be classified in two broad categories: full-control and shared-control. Firms can choose for full-control and ownership when they opt for Greenfield investments or cross border acquisition, whereas joint venture entails sharing of control and ownership (Herrmann and Datta, 2002). According to Kogut (1987) a joint venture is (a) a vehicle by which to share complementary but distinct knowledge which otherwise could not be shared or (b) a way to influence the competitive positioning of the firm by coordinating a limited set of activities. Each mode of entry involves different resource deployment patterns and different levels of risk and control. Full-control entry modes are typically more sensitive for environmental uncertainties and political instabilities. Secondly resource commitment is usually greater in full-controlled entry modes and often involve deployment of assets which can not easily be redeployed without a substantial loss of cost (Hill, Hwang and Kim, 1990) . Choosing the right entry mode has an profound effect on an organisations foreign performance and survival (Davis, Desai and Francis, 2000).

2.1.1 Transaction cost theory and mode of entry decision

The study of foreign entry mode decisions has almost exclusively been based on transaction-cost theory. Each entry mode requires a certain amount of resource commitment. By resource commitment we mean the amount of assets, tangible and intangible, that cannot be redeployed to alternative use without lose of cost (Hill, Hwang and Kim, 1990) Transaction cost variables are concerned with the costs of integrating an operation within the firm as compared with the costs of using an external party to act for the firm in a foreign market (Williamson, 1981). It states that the choice between full and partial ownership depends on the cost and benefits of full ownership, acquisition and Greenfield, opposed to shared ownership, joint venture (Hennart, 1991). This theory argues that if transaction costs – costs of finding and negotiating with an appropriate partner, and the costs of monitoring the performance of the partner firm- are low a firm will engage in a joint venture. But if these transaction costs are high a firm is likely to engage in a wholly owned venture (Brouthers, 2002).

2.1.2 Cultural distance and mode of entry decision

The influence of national culture on entry mode decisions has been stressed by several authors. Hofstede (1994) defines culture as the collective programming of the mind which distinguishes the members of one group or category of people from the other. The term ‘culture’ can in this case apply to nations but also to organisations, occupations and professions, age groups etc, although the manifestation of culture at all these levels may differ considerably. Because the influence of culture on management and entry mode decisions is most clearly recognizable on national level, we will in this paper use the word ‘culture’ to mean ‘national culture’ unless otherwise specified.

The term ‘cultural distance’ is used to indicate the difference in culture between the home country, in this case the Netherlands, and each target country (Brouthers, 2000). Cultural differences can be measured indirectly. They can be subtracted from data about collective behaviour, such as wealth distribution over the population, social mobility, the frequency of political violence or labour conflicts. All of these can tell us something about a countries culture, but it's not always clear how to interpret them (Hofstede, 1988). To overcome this problem Hofstede (1980, 1984, 1988) developed a procedure to measure culture on four specific dimensions. (1) With Power Distance he meant the extent to which less powerful members of the organization and institutions accept and expect that power is distributed unequally. (2) Individualism versus collectivism describes the degree to which people are integrated into groups. (3) Masculinity versus Femininity focuses on the distribution of roles between the sexes. Assertiveness is associated with masculinity while nurturing fits with femininity. (4) Uncertainty Avoidance indicates to what extent members of a society feel comfortable or uncomfortable in an unstructured uncertain situation.

According to Kogut and Singh (1988) it can be expected that the higher the cultural difference between home and host country the more distant their organizational characteristics will be. Based on existing literature, Erramilli (1996) concludes that beliefs and attitudes of managers, and consequently the patterns of decision making, are shaped by national cultures. Brouthers (2000) states that cultural context variables influence managerial cost and uncertainty evaluations in the target markets. So if cultural factors influence the perceived or real cost and uncertainties of the mode of entry differently, there should be country patterns in the way firms engage in one type of entry opposed to others (Kogut and Singh, 1988). Brouthers (2002) found that firms tend to be selective and prefer to enter attractive and less risky markets in culturally similar countries with stable economic and political conditions. They enter these markets with a wholly owned, acquisition or Greenfield, mode to obtain a high return. When entering countries which have a high investment risk, culturally different countries, firms prefer to seek local knowledge and enter the market by joint ventures. These findings are partly congruent with the findings of Kogut and Singh (1998), who concluded that the higher the cultural distance between home and host country the more like the investing firm will choose a joint venture or a Greenfield over an acquisition.

2.1.3 Institutional theory and mode of entry decision

National institutional factors must be combined with the transaction cost theory because institutions make up the environment of the host country and therefore provide the structure in which transactions occur (North, 1990). Institutional factors could create situations in which the mode that is predicted by the transaction cost theory might not be the preferred mode. The institutional environment might, for instance, force firms to adopt a certain entry mode, while the transaction cost theory suggests a different one. Therefore it is argued that entrants adjust their mode choice to the specific transaction costs in different institutional frameworks (Meyer, 2001). When we look at the institutions that influence the mode of entry of MNEs, we will look at the regulative institutional pressure that the host-country has to influence the MNE. The regulative aspects of institutions most commonly take the form of regulations (Hoffman, 1999).

The stability of regulative institutions, or institutional quality, can be measured with the six governance indicators that have been developed by Kauffman (2006). He identifies six factors that indicate the stability of the regulatory domain of the host country: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. The results of the six institutional factors have been obtained through extensive research and are based on several hundred individual variables measuring perceptions of governance, drawn from 31 separate data sources constructed by 25 different organizations (Kaufmann et al, 2006).

The choice of an entry mode by the MNE reflects the extent to which the subsidiary abroad conforms to the regulatory domain of the host environment. Like mentioned, this domain usually consists of laws and rules that form regulation for organizations and industries by which stability and order in societies must be ensured (North, 1990). Literature suggests that if this environment is unstable for foreign investors they should participate in a joint venture with a local partner This is because regulations are usually more lenient towards indigenous firms and by partnering with local firms they can reduce the liability of foreignness (Yiu and Makino, 2002). Apart from this, MNEs can benefit from spillover effects as well. They can 'free ride' on the reputation of the partner and learn from them how to deal with local government and other institutional infrastructure (Yiu and Makino, 2002).These theories suggest that institutional pressures influence the entry mode decision of firms when entering countries with a different regulative environment. Other research towards the institutional influences on mode of entry and transaction cost theory has found similar results (Brouthers, 2002, Davis et al., 2000, Meyer, 2001,).

2.2 Hypothesis development

If the perceived or real cost and uncertainty of mode of entry are influenced differently by cultural factors, it can be expected that there exist country patterns in the proposition of firms to engage in one type of entry mode opposed to others (Kogut and Singh, 1988). Cultural differences are likely to be especially important in the case of an acquisition, when an already existing foreign management team must be integrated into the acquiring firm's organisation. Empirical studies, mostly on domestic acquisitions, have shown that post-acquisition costs are substantial and are influenced by 'the organisational fit' of two companies (Kogut and Singh 1988). This refers to the organisational match between the target and parent firm on administrative practices, cultural practices and personal characteristics. In contrast, joint ventures are frequently used to assign management tasks to local partners who have a better understanding of the local market and thereby are better able to manage the local labour force and relationships with suppliers, buyers and governments (Kogut and Singh, 1988). A joint venture resolves the problems of cultural differences, which may arise with an acquisition, at the cost of sharing ownership. Some researchers have therefore emphasized joint ventures as a way of reducing transaction costs during internationalization (Balakrishnan and Koza, 1993). A Greenfield overcomes integration costs and the problem of sharing proprietary assets by imposing the management style of the internationalizing firm on the newly created organization, while preserving full ownership (Kogut and Singh, 1988).

According to Kogut and Singh (1988), differences in national cultures result in different organisational and administrative practices, as well as employee expectations. It can therefore be expected that the more culturally distant the home countries of two firms are, the more divergent their organisational characteristics and practices will be. Consequently, a firm wishing to internationalize into a culturally distant country will attach greater costs and risks to full controls modes relative to joint ventures. Thus,

H1: The greater the cultural distance between the home-country and the country of entry, the more likely an internationalizing firm will choose a joint venture over a Greenfield or acquisition.

Where in the first hypothesis we looked at the explanatory quality of cultural difference on entry mode decisions, we now are going to look at the individual influence of power distance on entry mode decisions. Countries scoring high on the power distance index (PDI) tend to be societies in which the power is concentrated in the hands of those at the top, whereas power is more evenly distributed in countries with a low score on the power distance index. Organisations in countries with a high PDI-score tend to be centralized with a pyramidal structure and a high proportion of supervisory personal. On the other hand, organisations in countries with a low PDI-score tend to be more decentralized, have a flatter organisational structure and have a relativity smaller proportion of supervisory personal. If these characteristics are taken into consideration with subsidiary ownership and market entry modes we expect that the PDI score of the host-country has an influence on entry mode decision (Erramilli, 1996). A high PDI score could indicate that people accept changes from the top earlier and thereby reduce the management cost, and making a fully owned entry mode more favourable. So our second hypothesis is:

H2: Internationalizing firms will prefer a Greenfield or acquisition over a joint venture, when the power distance in the host country is high.

Institutional context variables provide valuable information for entry mode decisions. They refer to conditions that protect or undermine property rights and increase or decrease resource commitment risk (Brouthers, 2002). Through laws, regulations and institutions, governments can dominate transactions in an economy. To a large degree they set “the rules of the game” (Rodriguez, Uhlenbruck and Eden, 2005). In some countries, the institutional structure may create a situation where the entry mode choice predicted by the transaction cost theory may not be the best choice. Firms may "face pressures to adopt designs that are within the subset of socio-politically legitimated designs" instead of choosing for a mode of entry which is based on the transaction cost design (Brouthers, 2002). Political and economic risks in the host country institutional environment are likely to have the highest impact, of all the institutional factors, on the entry mode choice (Delios and Beamish, 1999). Volatile environments in the host country are likely to predict joint ventures over acquisitions, because joint ventures are more flexible then wholly owned operations. Furthermore, it is argued by scholars that firms can reduce the risk by choosing for a joint venture in a host country that has greater political risk and uncertainty (Hill, Hwang and Kim, 1990). All this literature indicates that institutional factors play a significant role in predicting entry mode decision. What stands out is that ‘good’ institutional governance is favored above ‘bad’ institutional governance and that differences in both institutional factors are likely to lead to different forms of entry modes. This leads to our third hypothesis:

H3: The higher the institutional risk in the host country, the more likely that an internationalizing firm will choose a joint venture over a Greenfield or acquisition.

MNEs often encounter government corruption when operating in host countries. Organisations may create legitimacy by acquiring governmental consent with their actions, while governments can provide the firm with the resources and procurement contracts that make it appear legitimate and accepted. Corruption warps the rules of the game. Often, corruption rewards unproductive behavior by channeling unmerited contracts and rights to firms in exchange for bribes, thereby penalizing efficient and innovative firms (Rodriquez, Uhlenbruck and Eden, 2005). When we speak about corruption in this paper, we will primarily refer to Kaufman's control of corruption. The pervasiveness of corruption reflects the proportion of interaction with the government from which is expected to entail corruption (Rodriquez, Uhlenbruck and Eden, 2005). A low control of corruption will indicate a high pervasiveness of corruption and *vice versa*. When complying with corruption, especially if it is pervasive, it helps in overcoming the liability of foreignness, increases external liability and thereby reduces the need for a local partner (Rodriguez, Uhlenbruck and Eden, 2005). This suggests that if corruption is pervasive in a country there will be less need for a partner.

H4: An internationalizing firm will use Greenfield or acquisition as an entry mode in countries with a lower control of corruption.

2.3 Additional control factors

The choice of mode of entry may also be determined by host-country, industry and firm characteristics (Erramilli, 1996; Pan and Tse, 2000; Hollensen, 2001). On the host-country level there are several variables that could play a role. Typically, an acquisition or Greenfield is expected when the market size (often assessed in terms of GDP or population.) of the host-country high (Agarwal, 1994). One other potentially relevant host-country level variable is the Human Development Index (HDI). This index captures the degree of human development by combining measures of life expectancy, literacy, educational attainment, and GDP per capita of countries worldwide. It is possible, at least for MNEs from developed countries, that the stage of human development in a country will influence the choice of entry mode by the MNE: one may expect lower transaction costs in countries that are similarly developed. Industry characteristics could also influence the mode of entry choice (Pan and Tse, 2000). Different industries have different levels of R&D spend, advertising intensity, technology obsolescence and product development life-cycles. Thus the implications of intangible knowledge and product characteristics attributable to industry membership may play a role in mode of entry choice. Finally, at firm level there are several characteristics that could influence the mode of entry (Hollensen, 2001). Characteristics that have been identified include the size of the parent firm and the firms' degree of internationalization. Prior research has shown how ownership level of a subsidiary is positively related to the size of the parent firm and to the degree of internationalization of the parent firm (Erramilli, 1996).

3. METHODOLOGY

3.1 Sample

We obtained mode of entry data from all companies listed on the Dutch AEX listing during the period 2004-2007. During this period 24 Dutch originating firms were active on this listing. We analyzed annual reports from the corporate websites for these firms. Evidence of new entries into foreign markets was found by a qualitative search on the English version of the company report using keywords like: acquisition, Greenfield, joint venture, start-up, investment, and partnership. Data obtained from these reports was checked with press releases from the companies concerned. Every mode of entry that seemed ambiguous was not included in our sample. The final sample consisted of 515 modes of entries during the years 2004-2007.

3.2 Variables

3.2.1 Dependent variable: mode of entry

We distinguished three types of mode of entry in our research. These were acquisition, Greenfield and joint venture. We defined ownership as 51% ownership. Any entry mode that was below 51% was identified as a joint venture, except when it was clearly mentioned that the entry mode used was a start-up/Greenfield. We coded the entries as a 0 for Greenfield, 1 for acquisition, and 2 for joint venture.

3.2.2 Independent variables

Cultural variables:

We used Hofstede's (1980) dimensions of Power distance (PDI), Uncertainty avoidance (UAI), Masculinity (MAS),Individualism (IDV).

Cultural distance from the Netherlands (CDNL): By using the formula presented by Kogut and Singh (1988) we calculated the cultural distance of host-countries from the Netherlands. It is based on the four separate variables above. The formula is presented below.

$$CD_j = \sum_{i=1}^{4} \{(I_{ij} - I_{iu})^2/V_i\}/4 ,$$

(Kogut and Singh, 1988)

Iij stands for the index for the ith cultural dimension and jth country, V*i* is the variance of the index of the ith dimension, *u* indicates the Netherlands, and *CDj* is cultural difference of the jth country from the Netherlands (Kogut and Singh, 1988).

Institutional variables:

All the data for the institutional variables were obtained from the World Bank (www.worldbank.org). Data was taken from 2006 as this was the most recent data available.

Voice and accountability: The score of a country on this scale indicates the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and free media

Political stability and absence of violence: Political Stability represents the perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including political violence and terrorism.

Government effectiveness: The quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies

Regulatory quality: The ability of the government to formulate and implement sound policies and regulations that permits and promotes private sector development

Rule of law: The extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence.

Control of corruption: The extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

Host Country Institutional Quality: This variable combines all separate variables of institutional governance into one variable. This is done by calculating the mean of the six separate institutional variables for the host country. As expected a high correlation was found between each of the six separate variables justifies this. A high score on this variable indicates a stable institutional environment, while a low score indicates a more unstable and volatile institutional environment.

3.2.3 Control variables

Host country-level control variables:

Human development index (HDI): This index combines measures of life expectancy, literacy, educational attainment, and GDP per capita for countries. It is seen as a standard for the human development of a country. Based on this index it is often determined if a country is a developed, transition, or developing country. Data for this index was obtained from the United Nations Development Program (hdr.undp.org). A high score represents a higher human development.

Gross domestic product (GDP): GDP represents the total market value of all final goods and services produced within the host-country in 2006. Data was obtained from Thomson DataStream.

Gross domestic product per capita (GDPPC): This variable measures the average GDP per citizen or the GDP divided by a countries total population in 2006. Data was obtained from Thomson DataStream.

Population (POP): This control variable represents the population (x1000) in the year 2006. As with the last two variables, data was obtained from Thomson DataStream.

Industry-level control variables

Sectoral dummies: By adding this variable we control for the different industries in which our sample firms are active. A distinction has been made between: Life Insurance (LIFEIN), food and retail wholesale (FRW), specialty chemicals (CHEM), iron and steel (IRST), semiconductors (SEMC), retail (REIT), industrial suppliers (ISUP), banks (BANK), brewers (BREW), fixed line telecom (FLTEL), consumer electronics (CELEC), bus, train and employment (BTEM), publishing (PUBL), oil and gas (OIL), delivery services (DELS), and telecom equipment (TELEQ). Data was obtained from Thomson DataStream.

Firm-level control variables

Internationalization (INT): By measuring the percentage of foreign sales relative to the percentage of total sales we measure the internationalization of the company. Percentages are taken from 2006 and were obtained from Thomson DataStream.

Number of employees (EMP): This is the number of employees that worked for the company in 2006. Data was obtained from Thomson DataStream.

Market values (MV): Represents the total global value of the firm in question. Data was taken from 2006 and obtained from Thomson DataStream.

3.3 Analysis

We used a multinomial logistic regression to test the model. Joint venture (A) is considered as reference category and is in the output presented as category 0. The full control entry modes Greenfield (B) and acquisition (C) are respectively the first and second category in the results. By choosing A as reference category, we exclude the possibility to test the odds between B and C. However, we are able to test between the full and shared control entry modes.

4. RESULTS

4.1 Descriptive information

In our final sample we obtained 515 entries. As shown in Table 1, these entries are distributed in 44 Greenfields, 311 acquisitions and 160 entries by joint venture.

	Frequency	Valid Percent	Cumulative Percent
Greenfield	44	8.5%	8.5%
Acquisition	311	60.4%	68.9%
Joint Venture	160	31.1%	100%
Total	515	100%	

Table 1 Sample distribution

Because of the fact that not all cultural indicators are available for all countries we deleted several countries for which these items were missing. By doing this we reduced the number of entries from 515 to 474. The revised sample is presented in Table 2.

	Frequency	Valid Percent	Cumulative Percent
Greenfield	40	8.4%	8.4%
Acquisition	297	62.7%	71.1%
Joint Venture	137	28.9%	100%
Total	474	100%	

Table 2 Sample after deleting countries without cultural indicators

We divided the countries in our sample into underdeveloped, transition and developed economies. We did this by using the criteria that are used by the United Nations Development Programme (www.hdr.undp.org). Countries with a HDI score up to .499 were categorized as underdeveloped. Countries with a score between .5 and .799 were categorized as transition, and countries with a score ranging from .8 to 1 were categorized as developed. The results are listed in Table 3.

	Underdeveloped	Transition	Developed	Total
Greenfield	1	13	26	40
Acquisition	0	24	272	296
Joint Venture	5	42	87	134
Total	6	79	385	470

Table 3 Distribution of observations by country development

Most entries were made in developed countries. These countries represent for 385 entries, while transition and underdeveloped countries represent for 79 and 6 entries. What is interesting to see is that entries in underdeveloped and transitional countries were mainly made by joint venture as a mode of entry and that entries in developed countries were mainly acquisitions. Because there was no HDI for Taiwan available we deleted the four entries for Taiwan in this table.

When we look at the different industries that are present in our sample we see that publishing is responsible for most of the entries, while food retail and wholesale and semiconductors account for just four entries. When we look at modes of entry we see that publishing and business training and development account for most of the acquisitions, while brewers and oil and gas stand out for their amount of joint ventures. The iron and steel industry accounts for most of the Greenfields. The list of industries was obtained from DataStream.

Industry	Greenfield	Acquisition	Joint Venture	Total
LIFEIN	6	21	18	45
FRW	0	3	0	3
CHEM	8	24	5	37
IRST	9	27	15	51
SEMC	0	1	0	1
REIT	0	17	4	21
ISUP	0	8	0	8
BANK	2	27	8	37
BREW	0	13	18	31
FLTEL	0	13	4	17
CELEC	0	21	13	34
BTEM	8	51	3	62
PUBL	7	54	14	75
OIL	0	8	29	37
DELS	0	6	4	10
TELEQ	0	3	2	5
Total	40	297	137	474

Table 4 Distribution of entries by Industry

In terms of descriptive information of the independent variables (Table 5), we see that for the cultural variables, the mean of individualism is highest. Although this has the highest standard deviation as well. For the institutional variables, the mean of political stability is significantly lower than the means of the other institutional variables.

	Minimum	Maximum	Mean	Std. Deviation
PDI (power distance)	11	104	53,68	19,804
IDV (individualism)	14	91	62,40	25,251
MAS (masculinity)	5	110	52,96	19,210
UAI (uncertainty avoidance)	8	104	58,95	21,178
Voice and Accountability	5	100	72,68	29,330
Political Stability	3,8	99,5	57,437	20,2189
Government Effectiveness	16,6	100,0	79,053	19,6675
Regulatory Quality	19,5	100,0	77,922	21,5526
Rule of Law	8,1	99,5	75,623	23,7783
Control of Corruption	5,8	100,0	75,065	23,9982

Table 5 Descriptives of independent variables (N=474)

4.2 Multinomial logistic regression results

Results are presented in three models. The first model uses Kogut and Singh's (1988) cultural distance from the Netherlands, while excluding the separate cultural variables. Model 2 uses the disaggregated cultural variables for the host country, excluding the overall cultural distance. Model 3 uses one variable for institutional quality. In this model the six Kaufman indicators for institutional governance have been removed. The results are provided in Table 6.

Overall we can only accept H2, while H1 and H4 can be partially accepted. H3 is rejected. Of the control variables, human development index yielded the strongest effect: the higher the human development index, the more likely the MNE will chose an acquisition over a joint venture (Table 6).

	Intercept	PDI	IDV	MAS	UAI	Cultural Distance	Voice and Account-ability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Institu-tional Quality	Human Develop-ment Index
Model 1:														
Joint Venture	0	x	x	x	x	0	0	0	0	0	0	0	x	0
Greenfield	-18,3	x	x	x	x	,15 (1,160)	,05** (1,052)	-0,03 (,997)	-,07 (,935)	,06 (1,062)	,08 (1,085)	-,17* (,843)	x	4,28 (72,551)
Acquisition	-3,7	x	x	x	x	-,423** (,655)	,02 (1,017)	,01 (1,009)	-,45 (,956)	,04 (1,043)	0 (1,003)	-,06 (,942)	x	7,62** (2041,644)
Model 2:														
Joint Venture	0	0	0	0	0	x	0	0	0	0	0	0	x	0
Greenfield	-24,17	,05** (1,051)	,04 (1,040)	,01 (1,013)	-,03 (,971)	x	,05 (1,049)	,01 (1,011)	-,08 (,925)	,03 (1,030)	,11 (1,112)	-,17* (,843)	x	9,20 (9936,06)
Acquisition	-10,41***	,05*** (1,054)	,06*** (1,056)	-,01 (,995)	-,03* (,973)	x	,03 (1,027)	,02 (1,018)	-,06 (,942)	-,01 (,996)	,06 (1,062)	-,07 (,931)	x	11,22** (74554,88)
Model 3:														
Joint Venture	0	0	0	0	0	x	x	x	x	x	x	x	0	0
Greenfield	-22,49	,04* (1,038)	,05*** (1,051)	,02 (1,019)	-,01 (,988)	x	x	x	x	x	x	x	-,04 (,961)	3,88 (48,42)
Acquisition	-9,64***	,04*** (1,042)	,06*** (1,056)	-,01 (,994)	-,01 (,986)	x	x	x	x	x	x	x	-,02 (,976)	8,02** (3046,63)

Parameter estimates: β coefficient rounded to two decimals; (Exp(β)), * p <.10, **p<.05,***p,<.01

Table 6: Multinomial Logistic Regression Model of Choice of Entry Mode

4.2.1 Results Model 1

The model is significant at the $p<0.001$ level with a Chi-Square of 225. The Cox and Snell (Pseudo R-Square) value is acceptable at 0.392. Table 6 shows the estimated parameters of the independent variables and the control variable Human Development Index (HDI) of the both models (Beta and Exp (B)). The estimated parameters for the first model, choosing a Greenfield over a joint venture for Voice and Accountability are significant ($p < .05$). Furthermore, Control of Corruption shows significance at the .1 level. The estimated parameters of choosing an acquisition over a joint venture are highly significant for Cultural Distance with the Netherlands ($p = .014$) and for the Human Development Index ($p = .016$).

Voice and Accountability has a small positive effect for choosing a Greenfield mode of entry over a joint venture mode of entry. This means that the higher the Voice and Accountability of a host country the more likely a Dutch AEX listed firm is to choose a Greenfield entry over a joint venture mode of entry. The Exp (B) of 1,052 means that the chance of choosing a Greenfield over a joint venture when the voice and accountability of a host country is high increases with 5,2%. Control of Corruption has a negative impact on Greenfield mode of entry over a joint venture mode of entry. This means that the greater the control of corruption (low pervasive) in a host country the less likely a firm is to choose a Greenfield over a joint venture.

Cultural Distance with the Netherlands has a substantial negative effect for choosing an acquisition over a joint venture. This means that the higher the cultural distance with the Netherlands the less likely a firm is to choose an acquisition over a joint venture. This partially supports *H1*. *H1* also predicted that firm would prefer a joint venture over a Greenfield mode of entry. However our data does not support this argument.

The Human Development Index (HDI) of the host country is the only control variable that is significant. Furthermore, it has a large positive beta coefficient. The HDI has a large positive effect for choosing an acquisition over a joint venture. This in accordance with country similarity logic: in other words, an expectation that Dutch firms would choose an acquisition in 'similar' developed countries. Summarizing, while the independent variable CDNL significantly affects the likelihood of choosing an acquisition over a joint venture mode of entry, human development of the host-country must also be considered.

4.2.2 Results Model 2

For Model 2 the Chi-Square was 251 ($p<0.001$) with a Cox and Snell value of 0.427. The estimated parameters for choosing a Greenfield over a Joint Venture is significant for Power Distance (PDI) ($p < .05$). Furthermore, Control of Corruption stays significant at the .1 level whereas Voice and Accountability ($p = .13$) is not significant at the .1 level anymore. The estimated parameters of choosing an acquisition over a Joint Venture are highly significant ($p = .001$) for Power Distance (PDI) and Individualism (IDV). Furthermore, Uncertainty Avoidance Index (UAI) ($p = .069$) is significant but Masculinity is not significant at all ($p = .465$). The Human Development Index ($p = .010$) stays significant ($p < .05$). The other control variables, Population (.054) and the degree of Internationalization (measured by %foreign sales/total sales) (.067) are somewhat significant ($p <.1$) and the sectors Life insurances, Specialty Chemicals, Retail REITs, Banking, Publishing and Delivery Services are significant.

In Model 1 Cultural Distance was not found significant for choosing a Greenfield mode of entry over a joint venture mode of entry. However, in this model the Power Distance of a host country does positively effects the likelihood of a Dutch AEX listed firm to choose a Greenfield entry over a joint venture mode of entry. This means that the greater the power distance of a host country the more likely a firm will be to choose a Greenfield over a joint venture.

Control of Corruption has a negative effect for choosing a Greenfield mode of entry over a joint venture mode of entry in Model 2 as well. This suggests that if there is high control of corruption the internationalizing firm is more likely to put trust in the partners to a joint venture.

The first model showed that Cultural Distance with the Netherlands has a significant negative effect for choosing an acquisition over a joint venture. This model, on the other hand shows that the PDI, IDV and UAI of the host country significantly affect the chances of choosing an acquisition over a joint venture, while MAS is not significant at all. However, the betas of PDI and IND are very small but signed positive, whereas the beta of UAI is negative. Model 2 shows three significant cultural factors. Firstly, the higher the power distance in a host country the greater the chances of choosing an acquisition. Secondly, the higher the individualism of a host country the more likely the MNE will choose an acquisition. Thirdly, the higher the uncertainty avoidance the more likely a firm is to choose a joint venture over an acquisition.

4.2.3 Results Model 3

For model 3 the Chi-Square was 234 ($p<0.001$) with a Cox and Snell value of 0.405. Aggregated institutional quality is not significant ($p=.150$ for a Greenfield over a joint venture, and $p=.172$ for acquisition over a joint venture). This leads us to reject *H3* (that lower institutional quality in the host country) will lead to an increased chance for a joint venture). But because the significance is close to $p<.1$ for both cases we must be careful with rejecting this hypothesis. One reason for this is that five of the six separate institutional factors turned out to be non-significant as well in model 1 and 2. This suggests that five out of the six institutional factors do not play a significant role in the mode of entry decision.

What is interesting to see is that in this model the cultural factor IND turns out significant ($p=.008$) for the Greenfield over a joint venture. This is not the case in the second model were the six institutional factors were measured separately. This indicates a slightly positive effect for choosing a Greenfield over a joint venture when Individualism in the host-country increases. The sign stays the same in both models.

5. DISCUSSION

5.1 Cultural influence on entry mode

In terms of culture, the findings indicate that, in a host country with a large power distance, the MNE is more likely to pursue a full control mode of entry. In such cultures firms will be better able to command, to set targets and to use a hierarchal organizational structure because that is more accepted than in countries with a small power distance (Hofstede, 1980). This means that the acquisition or Greenfield will be easier to manage. The analysis also suggests that Dutch MNEs prefer full control modes where host country individualism is high. This may reflect an expectation that full controls modes will be successful where loosely knit social frameworks exist that are similar in nature to Dutch individualism. The negative effect of uncertainty avoidance on the likelihood of the choice for an acquisition over a joint venture may be because of the high transaction costs related to uncertainty. People in strong uncertainty avoidant countries may be hard to manage, particularly during the highly turbulent conditions of an acquisition process. A joint venture mode of entry may be seen as superior in this sense.

5.2 Institutional influence on entry mode

For our third hypotheses we developed an institutional quality variable, calculated as a mean of the six Kaufman factors. This hypothesis claimed that in countries with a high institutional quality (or low institutional risk) MNEs were more likely to choose for an acquisition or Greenfield over a joint venture. We found no support for this hypothesis. In terms of our last hypothesis (that in countries with a low control of corruption, MNEs are more likely to choose for an acquisition or Greenfield over a joint venture), we found a significant result only for the choice of a Greenfield over a joint venture. This hypothesis can only be partially accepted. One reason for this may lie in the sample: i.e., Dutch managers do not tolerate corruption and prefer to hold full control in situations where corruption may be influential within the overseas business operation.

One other unanticipated relationship regarding institutional factors was the small significant relationship we found between an increase in voice and accountability and the preference of a Greenfield over a joint venture. One explanation could be that voice and accountability, interpreted as a measure of democracy, creates an environment in which the risk of starting up a business without local knowledge is lower then when voice and accountability is low.

5.3 Emerging factor: Human Development

For the control variable Human development index we expected that it would have a significant influence on entry mode decisions. We based our expectations on the assumption that countries with a high score on the HDI would show high similarities. These countries are western democracies and have free market and capitalist economies. Most of these countries in the sample have long-standing strong relationship with the Netherlands both on political and economic grounds. Due to a high human development in a host country, investment uncertainties are reduced and it is likely that because of this the chance for a joint venture is decreased as the choice for a joint venture is often based on a higher investment risk. Our results confirmed the expectation here. The Human development index has a significant influence on the choice of an acquisition over a joint venture but it has no significant influence on Greenfields over joint ventures. A possible explanation for this is that the markets in developed countries are often already well matured, thereby decreasing the potential for Greenfield investments .

5.4 Limitations and suggestions for further research

Because the research is purely based on choices of entry modes by Dutch AEX-listed companies the generalizability is limited. Furthermore, all the firms were AEX-listed and thus our research only consist of very large firms, this limits the generalizability for small and medium sized firms. In further research firms of various sizes should be included and similar studies should be conducted in other countries to expand the applicability of our findings.

Because we gathered our data from secondary sources, annual reports and press releases, we can not be certain that we included all the market entries of the firms, as they are not legally obliged to mention these. A potential risk hereby is that we only gathered information on the biggest entries and that small exploratory entries were excluded, this could be an explanation for the low amount of underdeveloped and transition countries in our sample. It should also be taken in consideration that we do not look at the financial scope and exact location of the market entries. Furthermore, we do not look at the success of the entry mode decisions, so we are not aware if the companies are content with their decision and will keep performing well in the international market. Although we take the organizational scope of internationalization in consideration as a control variable, we do not look at their previous experience in a particular country. The limited time scope of our research, 2004 until 2007, made it impossible to look at the longitudinal entry mode decisions of the organizations.

There could also be other factors, not included here, which have an effect on the choice of entry mode. For example, the experience with a certain type of entry mode may influence the entry mode choices in other situations. Certain management characteristics could also influence choices of entry. Another consideration which should be taken into account and deserves further exploration are entry mode decisions based on oligopolistic gaming. By this we mean the influence on entry mode decision of competitive dynamics, such as the growth potential of the market, competitor movements, and the rush to invest.

One other issue that was not addressed in our research is the chance of an acquisition over Greenfield. Prior research has argued that MNEs enter culturally distant countries through joint ventures rather then acquisitions or Greenfields (Kogut and Singh, 1988). This claim was partly supported by our findings. Dutch firms prefer a joint venture over an acquisition. But we did not find support for the assumption that firms would chose a Greenfield over a joint venture. However, a recently conducted study by Slangen and Hennart (2008) analyzing Greenfield investments and acquisitions made by Dutch MNEs in 2003, found that Dutch MNEs prefer to enter these countries through Greenfields over acquisitions. Moreover, they found that moderating effects of the factors host-country experience and the plan to grant a subsidiary autonomy influence this choice (Slangen and Hennart, 2008). As we did not test the changes in odds for choosing a Greenfield over an acquisition and furthermore used a very different research method we argue that the results of this study are complementary rather than conflicting to the findings of Slangen and Hennart (2008). Consequently, there is a need to study if the changes in the likelihood of choosing a Greenfield over an acquisition or a joint venture over an acquisition are consistent. This could further increase our understanding of entry mode decisions taken by Dutch firms.

6. CONCLUSION

Unlike other earlier research, this paper finds empirical evidence that disaggregated cultural- and institutional factors play a role together in the choice of entry mode of MNEs. Results of our research indicate that cultural and institutional factors do play a role in the choice of entry mode for an MNE. The distance between the culture of the home- and the host-country has a large impact on the choice for an acquisition over a joint venture. Firms from culturally similar countries will perceive less costs and lower risks when investing in these countries. Culturally distant countries will require a higher commitment of resources, have a higher risk and will therefore provide the firm with a high level of uncertainty, thereby making a joint venture more feasible. However, in addition to overall cultural distance, other host-country factors also influence the choice of entry mode. In terms of national culture, our findings suggest power distance, individualism, and uncertainty avoidance all play a role. Our results also indicate that a high control of corruption and a high level of voice and accountability would lead to the choice for a Greenfield over a joint venture. Whilst the findings support different strands of the entry mode literature vis-à-vis cultural and institutional factors, they also highlight the human development of the host country as an important consideration when acquiring overseas. Given recent trends in global sourcing, we believe this should be better integrated into entry mode equations in future research.

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