

DISTANCE, SUBSIDIARY AUTONOMY AND THE MODERATING EFFECT OF OWNERSHIP MODE: A TRANSACTION-COST PERSPECTIVE

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Short Running Title: DISTANCE AND SUBSIDIARY AUTONOMY

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Abstract

Previous studies produced conflicting findings on the relationship between distance and subsidiary autonomy: one stream of research argues that parent firms increase their level of control and therefore reduce subsidiary autonomy with increasing distance between the subsidiary and the parent firm; the other stream suggests that greater distance is associated with a loosening of control and therefore enhanced subsidiary autonomy. Applying transaction cost reasoning we argue that the effect of distance on subsidiary autonomy depends on the ownership mode of the subsidiary (i.e. the contractual relation between the subsidiary and the parent firm). We test our hypotheses against data from a sample of 182 foreign subsidiaries in the People's Republic of China (PRC) and find strong support for our argument. Our findings show that greater cultural distance reduces the subsidiary autonomy of international joint ventures (IJVs), but has a positive effect on the autonomy of wholly owned subsidiaries (WoS). Interestingly, higher levels of political distance, on the other hand, increase the subsidiary autonomy of international joint ventures (IJVs), while having a negative effect on the autonomy of wholly owned subsidiaries (WoS). Our findings have strong implications for both theory and practice.

Introduction

Control and autonomy issues are regarded as two of the core management-strategies through which parent companies try to protect and manage their foreign subsidiaries (e.g., Calantone & Zhao, 2001; Cray, 1984). In many cases ownership-specific advantages are developed by parent firms and are subsequently transferred to foreign subsidiaries in order to yield a return. However, in the case of an adequate level of autonomy the foreign subsidiary may equally be a source for developing firm-specific advantages (Anand & Delios, 1997; Bartlett & Ghoshal, 1986; Birkinshaw et al., 1998; Chung et al., 2006; Dunning, 1981, 1988; Edwards et al., 2002; Enright, 2000; Gomez & Werner, 2004; Jarillo & Martinez, 1990). Previous research has extensively analyzed factors that influence subsidiary autonomy (for a review, see Johnston & Menguc, 2007) ranging from factors such as the home country of MNC (e.g., Bartlett & Ghoshal, 1987; Egelhoff, 1984; Hedlund, 1981; Negandhi & Baliga, 1981a,b; Welge, 1981) over the subsidiary's contribution to R&D (e.g., Bartlett & Ghoshal, 1989; Birkinshaw et al., 1998; Negandhi & Baliga, 1981a, b; Negandhi & Serapio, 1991) to industry characteristics (e.g., Bartlett & Ghoshal, 1987; Birkinshaw & Hood, 2000; Gray, 1984; Negandhi & Welge, 1984). Inspired by transaction cost reasoning and following the suggestions and empirical findings of Garnier (1982), Kogut and Singh (1988), and Richards (2000), among others, we argue in our study that subsidiary autonomy is influenced by distance.

Distance refers to the differences in the environment between the parent firm's home country and the country of the foreign subsidiary (Garnier, 1982). A large number of existing studies examined the relationship between aspects of control and autonomy on the one hand and the distance between the home country of the parent company and the country of the subsidiary on the other. Yet, results of these are inconsistent and empirical evidence is often contradictory. A number of scholars found that increased distance is associated with a lower level of control and higher autonomy (e.g., Anderson & Gatignon, 1986; Gatignon &

Anderson, 1988; Kim & Hwang, 1992; Kogut & Singh, 1988) while others found that distance is associated with a greater level of control and lower autonomy (e.g., Anand & Delios, 1997; Boyacigiller, 1990; Erramilli & Rao, 1993; Davidson & McFeteridge, 1985; Padmanabhan & Cho, 1996; Root, 1987).

The first group of scholars, supporting a positive relation between distance and autonomy, argue that higher autonomy or lower control reduces uncertainty and information costs in distant subsidiaries. This approach is, for example, supported by the results of Kim and Hwang (1992) or Kogut and Singh (1998). Both found that firms prefer low control operations at high distance levels. The second group of scholar hypothesize that firms increase their level of control in response to increasing distance. The general underlying assumption for this line of reasoning is that increasing distance enhances agency costs since it is more difficult for firms to verify claims from distant agents (Shenkar, 2001). To verify the claims of agents and to enhance operational certainty, firms internalize their activities and reduce the autonomy of their subsidiaries. Empirical support for this perspective comes, for example, from Anand and Delios (1997), Boyacigiller (1990), Erramilli and Rao (1993) or Puck et al. (2009). In addition to these two contradictory perspectives, at least two studies failed to find links between cultural distance and control or autonomy (Erramilli, 1996; Richards, 2000).

We suggest that these contradictory findings can at least partially be explained with a simple argument based on transaction cost reasoning. Existing research has separately tested effects of distance on different types of control and autonomy, but has rarely tested effects of distance on autonomy while simultaneously controlling for ownership type. But, from a transaction cost economics (TCE) perspective, it seems reasonable to argue that effects of distance on decision-making autonomy may depend on the type of ownership control since different ownership types represent different types of contracts. While, from a TCE

perspective, international joint ventures (IJVs) can be seen as neoclassical contracts, wholly owned subsidiaries (WoS) represent relational contracts. We believe that it is reasonable to argue that increasing distance causes different effects on decision-making autonomy depending on the contractual situation of the subsidiary. In addition, we believe that existing research fails to analyze different modes of control and autonomy even though past research has suggested that the type of ownership mode largely influences the subsidiary's level of autonomy (e.g., Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986; Erramilli & Rao, 1993; Slangen & van Tulder, 2009; Williamson, 1985).

While a large body of research has dealt with parent firms' modes of control and factors that influence the subsidiary's autonomy, the relationship between distance and subsidiary autonomy with simultaneous consideration of ownership modes has, thus, been mainly neglected. Moreover, past research has either focused on the effects of cultural distance, thus accounting only for the informal differences between environments (e.g., Agarwal, 1994; Barkema & Vermeulen, 1997; Chang & Rosenzweig, 2001; Cho & Padmanabhan, 2005; Contractor & Kundu, 1998; Erramilli & Rao, 1993; Hennart & Larimo, 1998) or on the effects of political distance, thus accounting only for the formal differences between environments (e.g., Agarwal & Ramaswami, 1992; Akhter & Lusch, 1988; Delios & Beamish, 1999; Delios & Henisz, 2000; Henisz, 2000; Kobrin, 1983; Root, 1987). Following the suggestions of Ghemawat (2001) and Slangen and Tulder (2009) we conceptualize distance between a pair of country as a multi-dimensional construct and take cultural as the informal part as well as political and economic as the formal part into account. Furthermore, while most research has analyzed subsidiaries in developed countries (e.g., Cleeve, 1997; Geringer, 1988; Hennart, 1991; Johnston & Menguc, 2007; Killing, 1983; Kogut & Singh, 1988; for notable exception see Garnier, 1982 and Demirbag et al., 2007) we focus on foreign subsidiaries in the People's Republic of China (PRC). With more than US \$83 billion in

inward FDI in 2007 (UNCTAD World Investment Report, 2008) the country is one of the largest recipients of FDI globally. Given the large number of subsidiaries set up by distant foreign investors (e.g., Europe and the U.S.), we believe that the country provides a good setting for analyzing the relationship between distance and subsidiary autonomy. Moreover, statistics show that WoS and IJVs are the dominant forms of entry modes in China (Puck et al., 2009). As a consequence, our study focuses on these two types of ownership modes when analyzing moderating effects.

The remainder of this paper is organized as follows. In the next section, we apply transaction cost economics (TCE) to develop a framework and to derive hypotheses about the effect of distance on subsidiary autonomy. On the basis of this relationship, hypotheses about the moderating effects of ownership modes are developed based on TCE reasoning. The ensuing section presents our sample and measures, followed by a discussion of our empirical results. The final section concludes, outlines the limitations of our study, and highlights the implications for theory and practice.

Theoretical Framework

Distance between the parent firm's home country and the host country of the foreign subsidiary influences the external uncertainty of subsidiaries operating abroad. By distance we understand the differences in the environment between the parent firm's home country and the country of the foreign subsidiary (Garnier, 1982). Lu and Hebert (2005) confirm that distance is regarded as an important source of external uncertainty, since it contributes to an unfamiliar environment. External uncertainty is, in turn, a key dimension of TCE that significantly determines the level of transaction costs subsidiaries encounter in foreign markets since it complicates the verification of claims by distant agents as "these agents will make claims rooted in an unfamiliar environment" (Shenkar, 2001, p. 521).

In uncertain environments the provision of an appropriate level of autonomy is a core management-strategy through which parent companies try to manage their foreign subsidiaries (Calantone & Zhao, 2001). We define autonomy as the “division of decision-making authority between a local unit and an outside organization that controls it” (Garnier, 1982, pp. 893-894). Thus, a high level of autonomy implies that the foreign subsidiary has considerable decision-making authority, while a low level of autonomy suggests that most decisions are in the hand of the parent firm. Put differently, in the case of high autonomy or low control, the subsidiary disposes of the resources required to solve local problems (Garnier, 1982).

We suggest that the level of external uncertainty stemming from distance affects the autonomy that MNC grant their foreign subsidiaries. In fact, we argue that autonomy is a means of managing external uncertainty in highly distant markets and apply TCE reasoning to develop our research model. TCE contrasts the integration of activities within the firm (hierarchy) with the use of the market as two alternative forms of organizing economic transactions. Anderson and Gatignon (1986) note that the degree of integration ranges from complete non-integration (e.g., classical market-contracting) to complete integration and that integration is closely associated with control. We thus argue that the use of the market represents high subsidiary autonomy, while low subsidiary autonomy represents hierarchy. Therefore, the concept of autonomy fits well within the framework of TCE, with very high autonomy (market) and very low autonomy (hierarchy) as the two extremes in the continuum.

Besides external uncertainty, internal uncertainty plays a major role in TCE reasoning.

Internal uncertainty is defined as the “uncertainty about the operation of foreign subsidiaries” (Lu & Hebert, 2005, p. 739). From the perspective of TCE, the ownership mode of foreign subsidiaries influences the level of control MNCs can exert over their foreign operations and thus the level of internal uncertainty (Williamson, 1985). Thus, it seems reasonable to suggest

that the effects of distance on decision-making autonomy may depend on the type of ownership control. We focus on two typical types of ownership modes in foreign markets: IJVs and WoS. IJVs represent neoclassical contracts, in which two or more partners share control over combined resources and competences to achieve goals they cannot achieve on their own (Holtbrügge, 2004; Kaas & Fischer, 1993; Puck et al., 2009). WoS, on the other hand, represent relational contracts that grant the parent firm exclusive control over the foreign subsidiary's resources and competences. Owing to these different contractual agreements we argue that IJVs and WoS vary in their degree of internal uncertainty.

Thus, it seems reasonable to argue that internal uncertainty is higher in distant IJVs than in distant WoS (Slangen & van Tulder, 2009). External uncertainty, on the other hand, influences both ownership modes although scholars have emphasized that IJVs and WoS substantially differ in their capacity to confront external uncertainty in highly distant environments (Kim & Hwang, 1992). Overall, we therefore suggest that the interaction of internal and external uncertainty affects the level of autonomy MNCs grant their foreign subsidiaries. Given that IJVs and WoS differ in terms of control and capacity to confront uncertainty stemming from distance we argue that the type of ownership mode has a moderating effect on the relation between distance and autonomy.

Following the argumentation above, distance as our independent variable, autonomy as our dependent variable, and the type of ownership as our moderator can well be explained by TCE. For the purposes of our study, TCE provides a valuable framework for analyzing the effects of distance and ownership modes on subsidiary autonomy. In the following we will thus apply TCE reasoning to derive hypotheses about the influences of three different dimensions on subsidiary autonomy as well as the moderating effect of ownership mode.

Hypotheses

Cultural distance and autonomy

Cultural distance between the parent's firm home country and the subsidiary's host country has been argued to increase the external uncertainty and thus the transaction costs of foreign subsidiaries (Chen & Hu, 2002; Hennart & Larimo, 1998; Hymer, 1976; Lu & Hebert, 2005; Slangen & van Tulder, 2009; Williamson, 1985). We define cultural distance in line with Chen and Hu (2002, p. 196) as "the difference in [...] values and beliefs shared between home and host countries" and culture according to Hofstede (1980, 2001) as the "collective programming of the mind which distinguishes the members of one category of people from another."

Differences in national culture are regarded an important source of external uncertainty (Lu & Hebert, 2005; Slangen & van Tulder, 2009), which has been widely accepted in the international business literature (Demirbag et al., 2007). Foreign subsidiaries that are exposed to high cultural distance have to make transactions in environments, which are characterized by unfamiliar social norms, beliefs and values. These deeply rooted, invisible social norms, beliefs, and values translate into considerable differences in behaviour, attitudes, cognition and interpretation between the foreign subsidiary and their local transaction partners (e.g., local buyers, suppliers, government bodies etc.). Garnier (1982, p. 894) argues that the higher the distance, the greater is the "degree of foreignness [...] and the less understandable [are] the messages issued by the environment." With increasing cultural distance foreign subsidiaries lack the ability to fully understand and predict their transaction partner's behaviour, which Sohn (1994) defines as "social knowledge". Thus, cultural distance reduces social knowledge and enhances the external uncertainty of foreign subsidiaries since they cannot adequately interpret and predict their transaction partner's behaviour patterns. In fact, cultural distance may nurture the occurrence of misunderstandings and managerial conflicts thus increasing the external uncertainty and the transaction costs for foreign subsidiaries

(Morschett et al., 2008). Boyacigiller (1990) notes that with regard to cultural distance transaction costs mainly refer to the costs of information flow between transaction partners. Consequently, with growing cultural distance the task of communicating with local transaction partners is expected to be more costly and time-consuming. From a TCE perspective, we suggest that cultural distance enhances the information costs both when searching for and monitoring the local transaction partners owing to an increased external uncertainty. In line with Boyacigiller (1990) and Demirbag et al. (2007) we thus argue that cultural distance enhances the costs associated with transactions for foreign subsidiaries as a result of external uncertainty.

Parent firms can now mitigate these high transaction costs of their foreign subsidiaries stemming from high cultural distance by leaving decision-making to their subsidiaries. Garnier (1982) reports that in the case of high external uncertainty parent firms should reduce their level of control over the subsidiary. The more culturally distant the environment is, the more flexible and rapidly foreign subsidiaries need to respond to this unfamiliar environment. Foreign subsidiaries that perceive a high uncertainty of their transaction partner's behaviour patterns need to secure reliable contracts as quickly as possible. A high autonomy permits them to better safeguard their interests in contracts with local transaction partners. Empirical evidence for this line of reasoning comes from Demirbag et al. (2007), Kim and Hwang (1992), and Kogut and Singh (1988) who note that foreign subsidiaries prefer greater levels of autonomy at high cultural distance levels. As a consequence, we assume that the reduction in (external) transaction costs resulting from higher levels of autonomy outweighs the costs that arise from a lower level of control (Garnier, 1982; Richards, 2000). Integrating the arguments above, we formulate the following hypothesis.

Hypotheses 1a): *The higher the cultural distance between the home and the host country, the higher is the level of autonomy of the foreign subsidiary.*

Political distance and autonomy

Similar to cultural distance, political distance between the parent's firm home country and the subsidiary's host country has been argued to increase the external uncertainty and thus the transaction costs of foreign subsidiaries (Agarwal & Ramaswami, 1992; Akhter & Lusch, 1988; Delios & Beamish, 1999; Delios & Henisz, 2000; Henisz, 2000; Kobrin, 1983).

Political distance refers to the extent of differences in the political environment between the parent firm's home country and the host country of the subsidiary (Gaur & Lu, 2007).

Political distance is an important source of external uncertainty since it often entails political constraints that exacerbate the unpredictability of an investment regime (Anderson & Gatignon, 1986; Lu & Hebert, 2005). The greater the differences between the political environments the more uncertain are the subsidiary's operations in the host country.

One crucial factor that creates political distance between two countries is government regulations. For example, numerous governments cannot resist the temptation of raising barriers to protect their infant industries or national champions (Ghemawat, 2001; Yongqiang, 2006). Even though China has eased up its government regulations following the WTO entry in 2001, the country still restricts or prohibits FDI in certain industries. The majority of these unfavourable measures originate in the host country; however, some of them are even triggered by home country governments. A case in point are stringent domestic prohibitions on bribery or health and safety prescriptions that put foreign companies at a disadvantage compared to indigenous rivals that enjoy laxer regulations. From the perspective of TCE, these differences in regulations weaken a foreign subsidiary's ability to write, execute and enforce contracts, which include all potential contingencies (Anderson & Weitz, 1986; Garnier, 1982). This is in

line with the findings and suggestions of Beamish and Banks (1987) and Williamson (1975) who report that external uncertainty stemming from political distance complicates the specification of future transaction contingencies and requires more frequent contractual adjustments and negotiations, thus adding to the transaction costs (Agarwal & Ramaswami, 1992; Shenkar, 2001). Additionally, constantly changing government regulations may lead to the existence of contractual gaps that may be opportunistically exploited by local transaction partners. Foreign firms may find themselves locked in a particular transaction even though the current political environment would now call for different, more efficient contracts.

Another important factor that creates political distance between the home and the host country are the differences in the legal system. Especially in emerging markets MNCs are often exposed to a regulatory framework that significantly differs from what they are used to at home (Holtbrügge & Puck, 2008). If the legal system is poorly developed foreign subsidiaries can hardly rely on legal institutions, but rather have to deploy their own resources in order to enforce contracts and monitor local stakeholders. Similarly, Slangen and van Tulder (2009) contend that loopholes in a weak governance infrastructure may encourage local stakeholders to act opportunistically, thus increasing the external uncertainty and monitoring costs of foreign subsidiaries.

Overall, we therefore argue that political distance between the home and the host country augments the external uncertainty and thus the transaction costs of foreign subsidiaries. A high political distance impedes foreign subsidiaries to stipulate every possible contingency in their contracts. In a similar vein, Pedersen and Petersen (2004, p. 103) note that a high level of external uncertainty “impedes effective decision making and leads to difficulties in dealing with local governments and partners.” In order to reduce these costs TCE suggests parent firms to relinquish control and grant their foreign subsidiaries more autonomy. Empirical evidence substantiates this argumentation and comes from Brouthers et al. (2002), Demirbag

et al. (2007), and Yiu and Makino (2002) who report that in politically uncertain environments MNCs reduce control and grant their foreign subsidiaries higher levels of autonomy. Thus, subsidiaries in politically distant environments can benefit from a higher degree of flexibility in order to effectively adapt to political conditions that are subject to change. In addition, foreign subsidiaries that respond to the local needs of governmental institutions may raise their standing and reputation in the host country, which may result in considerable political concessions and thus lower transaction costs (Makhija & Ganesh, 1997). Consequently, we derive the following hypothesis.

Hypothesis 1b): The higher the political distance between the home and the host country, the higher is the level of autonomy of the foreign subsidiary.

Economic distance and autonomy

Compared with cultural distance, economic distance has largely been neglected in the international management literature, even though numerous researchers have highlighted its importance for transactions (e.g., Anderson & van Wincoop, 2003; Bergstrand, 1985; Mcpherson et al., 2000). These authors have, however, focused on bilateral trade; the importance of economic distance for subsidiary autonomy on the micro-level has not been in the centre of attention (for notable exception see Ghemawat, 2001).

We argue that economic distance between the parent firm's home country and the subsidiary's host country increases the external uncertainty and thus the level of transaction costs.

Economic distance compares the economic degree of development in the home country with the economic development in the host country. In this respect we distinguish between supply-side and demand-side differences.

Differences in demand between two countries are mainly reflected in the level of purchasing power of consumers. In the case of low demand-side differences, MNCs can more easily replicate their business model in the host country without making costly adaptations to products, production and distribution processes. Low economic distance on the demand side is particularly beneficial to companies that are dependent on comparative cost advantages. “Companies that rely on economies of experience, scale, and standardization should focus on countries that have similar economic profiles” (Ghemawat, 2001, p. 145). In a similar vein, Slangen and Hennart (2008, p. 475) add that the realization of economies demands low levels of autonomy since the MNC wants the subsidiary to “perform specific activities as desired by the parent.” Substantial differences in demand, on the other hand, require foreign subsidiaries to pursue product or process adaptations in order to suit the tastes and needs of local consumers. Consequently, MNCs cannot easily transfer their established business model to the foreign context, but have to develop an adjusted model. From a TCE perspective, this adjustment is confronted with external uncertainty and high transaction costs since models adjusted to specific markets can hardly be substantially tested before implementation and happens in an unfamiliar demand environment.

However, given that in the PRC the purchasing power of consumers dramatically varies between provinces (Holtbrügge & Puck, 2008) we suggest that the exclusive focus on demand-side differences is not warranted. We therefore include differences on the supply-side.

Supply-side differences are substantially influenced by the access to financial resources. Miller and Parkhe (2002) highlight the difference in financial orientation between two countries that may contribute to a “liability of foreignness”. They argue that while some countries rely on banks to source capital, other countries primarily use private capital markets for funding. While both systems may provide efficient funding a highly different financial

orientation enhances the probability of firms operating less efficiently in the foreign market (Miller & Parkhe, 2002). Consequently, MNCs with a contrasting financial orientation are exposed to considerable external uncertainty and a switch from bank-oriented to market-oriented funding is associated with substantial transaction costs.

Following our reasoning, both supply and demand-side differences between the parent firm's home country and the country of the subsidiary determine the level of economic distance. The greater the economic distance the higher is the external uncertainty and the higher are the transaction costs of foreign subsidiaries. Foreign subsidiaries may find that they have to change their business model or financial orientation in order to respond to local consumer needs or to gain access to financial resources. These changes certainly do not come without costs. TCE suggests that for foreign subsidiaries to effectively adapt to differing local economic conditions they need to be equipped with an adequate level of autonomy. "MNE parents aiming to be locally responsive [...] will grant the subsidiary considerable autonomy, because local responsiveness requires adaptation of a subsidiary's products or business activities to local markets (Slangen & Hennart, 2008, p. 475). Thus, we derive the following hypotheses.

Hypothesis 1c): *The higher the demand-side economic distance between the home and the host country, the higher is the level of autonomy of the foreign subsidiary.*

Hypothesis 1d): *The higher the supply-side economic distance between the home and the host country, the higher is the level of autonomy of the foreign subsidiary.*

The moderating effect of ownership mode

In the last section, we hypothesized that greater levels of autonomy are required in highly distant environments in order to mitigate the level of external uncertainty stemming from

distance. According to our research framework, we will now analyze the moderating effect of ownership mode on this relation. We base our model on the argument that distance has different effects on the levels of internal and external uncertainty depending on the type of ownership. More precisely, we argue that increasing distance leads to higher internal but lower external uncertainty in IJVs as compared to WoS.

Internal uncertainty plays a significant role in TCE reasoning (Anderson & Gatignon, 1986) and can be defined as the “uncertainty about the operation of foreign subsidiaries” (Lu & Hebert, 2005, p. 739). From a TCE perspective, the ownership mode of subsidiaries influences the level of control MNCs can exert over their foreign operations (Williamson, 1985) and thus the level of internal uncertainty. Following TCE reasoning, IJVs and WoS differ in their capacity to confront internal uncertainty. While WoS represent relational contracts, in which the parent firm retains full control over the subsidiary’s resources and competences, IJVs represent neoclassical contracts, in which two or more partners share control over combined resources and competences (Holtbrügge, 2004; Kaas & Fischer, 1993; Puck et al., 2009). Based on this contractual situation, IJVs entail higher monitoring costs than WoS due to higher internal uncertainty since distance complicates the performance evaluation of the local partner, enhances the potential risk of the partner’s opportunistic behaviour and thus enhances internal uncertainty (Anderson & Gatignon, 1986; Dikova, 2009; Gatignon & Anderson, 1988; Gaur & Lu, 2007; Gomes-Casseres, 1990; Henisz, 2000; Meschi & Riccio, 2008). Summarizing, distance increases the level of internal uncertainty and thus the level of transaction costs, and this effect is assumed to be stronger in IJVs than in WoS due to the different contractual relation.

However, as discussed above, distance also enhances the external uncertainty of foreign subsidiaries. Again, IJVs and WoS differ in their capacity to confront external uncertainty stemming from distance. With regard to external uncertainty past research has argued that

IJVs possess transaction cost advantages over WoS in highly distant environments mainly for the following three reasons: (1) IJVs can mitigate country-specific risks and therefore reduce the external uncertainty. Numerous empirical studies have confirmed this (e.g., Davidson & McFetridge, 1985; Erramilli & D Souza, 1995; Gatignon & Anderson, 1988; Hoffmann & Schaper-Rinkel, 2001; Kogut & Singh, 1988; Morschett et al., 2008). In addition, Kim and Hwang (1992) suggest that in the case of “location unfamiliarity” MNCs prefer joint ventures over direct investments owing to the presence of the local partner and Brouthers (2002) notes that IJVs are the preferred mode when firms enter countries characterized by high investment risk. In addition, IJVs are less likely struck by discriminatory government policies given the shared-equity arrangement with local firms (Delios & Henisz, 2000; Henisz, 2000; Yiu & Makino, 2002). (2) IJVs are a means of facilitating access to locally based assets and thus reducing the transaction cost disadvantages resulting from distance (Beamish & Inkpen, 1995). With growing distance foreign subsidiaries become more dependent on locally based assets in order to overcome barriers and manage foreign operations (Gatignon & Anderson, 1988; Gomes-Casseres, 1989, 1990; Kogut & Singh, 1988; Makino & Delios, 1996). Beamish & Banks (1987) argue that firms tend to seek local knowledge through IJVs as distance increases (see also Brouthers, 2002). In a similar vein, Edwards et al. (2002, p. 186) argue that “MNCs whose origins are remote from their target market tend to pursue strategies that give them access to local knowledge.” Lu and Hebert (2005, p. 738) suggest that “forming an IJV permits foreign investors to access complementary assets and to reduce accordingly the [external] uncertainty they are confronting.” In addition, Gaur and Lu (2007) maintain that local partners provide superior knowledge and connections that assist foreign subsidiaries in mitigating the unfamiliarity with the host-country environment. Thus, following the suggestions of previous scholars we contend that IJVs facilitate access to locally based assets and subsequently reduce the level of external uncertainty stemming from distance. (3) Since IJVs tie up fewer resources they are also associated with lower exist costs and lower levels of

external uncertainty if the venture fails or the host country environment deteriorates. Slangen and van Tulder (2009, p. 278) confirm that “JVs [...] have lower exit costs than WOS, and hence increase an MNE’s flexibility (also see Brouthers, 2002; Brouthers & Brouthers, 2001; Delios & Beamish, 1999; Kogut, 1991).

Integrating these arguments on internal and external uncertainty, we contend that, on the one hand, IJVs have a greater capacity to confront external uncertainty than WoS owing to the involvement of the local IJV partner and face lower transaction costs stemming from external uncertainty. On the other hand, WoS are confronted with a lower internal uncertainty compared to IJVs in highly distant environments and thus face lower transaction costs stemming from internal uncertainty (Erramilli & Rao, 1993; Gatignon & Anderson, 1988; Goodnow & Hansz, 1972). In order to mitigate external uncertainty stemming from distance TCE suggests augmenting the level of autonomy in foreign subsidiaries (see above). Contrary, in order to manage internal uncertainty, TCE suggests increasing the level of control and therefore reducing autonomy in foreign subsidiaries (Lu & Hebert, 2005). Given that WoS are exposed to higher levels of external but lower levels of internal uncertainty than IJVs, MNCs are expected to increase their level of autonomy more considerably in WoS than in IJVs with growing distance.

In line with TCE reasoning, we thus overall argue that the type of ownership moderates the effect of distance on subsidiary autonomy. The interaction of internal and external uncertainty shows that with increasing distance the level of autonomy MNCs grant their foreign subsidiaries is assumed to be greater in WoS than in IJVs. Thus, we derive the following hypothesis.

Hypothesis 2): *The type of ownership mode (IJV / WoS) positively moderates the effect of cultural, political, and economic distance on the level of autonomy. The impact of distance on autonomy is expected to be greater for WoS than for IJVs.*

Figure 1 summarizes the hypotheses in our research model, with the four dimensions of distance as the independent variables, autonomy as the dependent, and the type of ownership from (IJV / WoS) as our moderator variable.

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Research design and methodology

In this section we describe the research design of our study. We first comment on the data origin and the sample before presenting the operationalization of our variables.

Data origin and sample

In order to examine the influence of distance on the level of autonomy as suggested in our research model, we sent out questionnaires to foreign companies located in the PRC. We focused on foreign firms headquartered in the United States, Japan, and Europe, while deliberately excluding investors from Hong Kong, Taiwan, Macao, Singapore, Malaysia, as well as offshore financial centres such as the Virgin Islands or Western Samoa. We excluded these source countries in order to eliminate round-tripping investments (Xiao, 2004) and investments from overseas Chinese companies, which owing to their cultural affinity are not readily comparable with investments from other foreign investors. In order to compile a comprehensive database of contact addresses we contacted the chambers of foreign trade of Japan, the United States, the UK, Germany and the European Union. Furthermore, we analyzed company home pages and articles in newspapers (e.g., China Business Review). In

total, we identified contact details of 1,979 IJVs or wholly owned subsidiaries of foreign companies in the PRC. The original German language questionnaire was translated into English, Japanese, French, and Spanish by three professional translators. The translate/re-translate method was employed to ensure the equivalency of the questionnaires (Brislin, 1970). The questionnaire was distributed via e-mail accompanied by an executive summary explaining the objective of the study. Those companies that had not replied by the original deadline received a reminder two weeks later. After a second deadline, we had received usable 195 questionnaires, representing a response rate of 9.9%. The relatively low response rate may in part be explained by the questionnaire fatigue reported by many managers of subsidiaries of foreign firms in the PRC (one respondent who declined to participate in the study explained that he would receive more than seven questionnaires per week). Sampled subsidiaries were established by companies headquartered in 13 countries, with the United States accounting for the most of these companies (23), followed by Germany (20), Japan (10), the UK (10), and Italy (10). On average, the subsidiaries counted 689 employees and were mainly operating in the chemical, mechanical engineering, computer, electronic and automotive industries.

Non-response bias was assessed by using the approach of Armstrong and Overton (1977). Non-response bias exists if the “persons who respond differ significantly from those who do not” (Armstrong & Overton, 1977, p. 396). A comparison of early- and late-arriving responses showed that the likelihood of a non-response bias for any independent variable was low. Consequently, non-response bias was not considered to be a problem. Since our dependent variable was constructed using primary data, our independent variables come from secondary sources, and our moderator is a dichotomous yes/no variable, common method bias can only exist at the level of the control variables. However, in order to minimize common method bias at this level, we followed the strategies suggested by Podsakoff et al. (2003). In

particular, we separated items measuring the same construct in the questionnaire, protected and assured respondent anonymity, and reduced the danger of evaluation apprehension by explaining in the executive summary that there were neither “right” nor “wrong” answers.

Operationalization of variables

Dependent variable

In order to measure subsidiary autonomy as the dependent variable we combined the suggestions of Birkinshaw et al. (1998), Hill (1988), and Vachani (1999). Managers were asked to evaluate subsidiary autonomy on the following six dimensions: strategic decisions, research and development, organization of production, organization of distribution, budget responsibility and adjustment to local requirements. Answers to these questions were measured on seven-point Likert-type scales ranging from 1 (the subsidiary’s autonomy is very low) to 7 (the subsidiary’s autonomy is very high). The responses to these questions were subsequently combined to form a composite index. The construct showed a good internal reliability (Cronbach’s alpha = .784).

Independent and moderating variables

Cultural distance between the home and the host country was measured with the index of Kogut and Singh (1988). They suggest employing the results of Hofstede’s (1980, 2001) study to calculate a single composite index of cultural distance for each country pair using the following formula:

$$CD_{jk} = \sum \left\{ \frac{(D_{ij} - D_{ik})^2}{V_i} \right\} / 4$$

where CD_{jk} reflects the cultural distance between country j and China (k), D_{ij} reflects the value of country j and D_{ik} the value of China on the cultural dimension i , and V_i indicates the variance of the index of the cultural dimension i based on the data of Hofstede (1980, 2001). Hofstede's claim that differences in national culture can be represented in terms of these four dimensions has been subject to criticism. For example, authors have complained that his data were confined to one company, that his questions focused exclusively on work values, and that his research framework was biased towards Western standards (for a review, see Erez & Early, 1993 or Javidan et al., 2006). Despite this criticism, however, his study continues to be the largest empirical study connecting cultural orientation with observable institutional differences between countries within a single framework. Moreover, Hofstede's dimensions of distance have been empirically validated in studies before (e.g., Van Oudenhoven, 2001; for a review, see Sondergaard, 1994). Drogendijk and Slangen (2006) found that Hofstede's measures of cultural distance outperformed the explanatory power of managerial perceptions in explaining establishment mode choices by MNCs. Their findings indicate that Hofstede's measures reflect important cultural differences, suggesting that researchers can reliably continue to use the Kogut and Singh (1988) index in international business.

In order to measure the political distance we used the CHECKS index from the Database of Political Institutions. We calculated the absolute value difference between the country j and China (k) according to the following formula:

$$PD_{jk} = |CHECKS_j - CHECKS_k|$$

The CHECKS index counts the veto players in a political system and adjusts for whether these players are independent of each other. With a growing number of veto players in a political system, the system of checks and balances is assumed to be more established, impeding the likelihood of arbitrary political changes and thus enhancing the predictability of

the political environment. Therefore, the political stability in a country increases with the number of veto players (Beck et al., 2001; Keefer & Stasavage, 2003).

For economic distance we distinguished between supply-side and demand-side distance. With regard to demand-side economic distance we measured it as the absolute value difference in GDP per capita between the China (k) and the respective home country (j):

$$ED_{DEMAND\ jk} = |GDP\ per\ capita_j - GDP\ per\ capita_k|$$

We referred supply-side economic distance to the financial market orientation, which indicates whether a country primarily uses the banking system or the private capital markets for external funding. We followed the suggestions of Levine (2002) and Miller and Parkhe (2002) and measured the financial market orientation as the absolute value difference between the country j and China (k) by using the formula below. The market capitalization, bank credits, and GDP data were drawn from the United Nation World Development Indicators Database.

$$ED_{SUPPLY\ jk} = \left| \frac{(Market\ Capitalization_j / GDP_j)}{(Bank\ Credit\ to\ Private\ Sector_j / GDP_j)} - \frac{(Market\ Capitalization_k / GDP_k)}{(Bank\ Credit\ to\ Private\ Sector_k / GDP_k)} \right|$$

The moderator variable, ownership form of the subsidiary, was measured using a dichotomous variable, assigned 0 if the subsidiary operated as an IJV and 1 if the subsidiary was a WoS. According to Baron and Kenny (1986) the interaction effect was calculated by multiplying the moderator variable with the respective independent variables.

Control variables

Three control variables were included in the analysis. Studies have suggested that the competitive pressure in an industrial sector influences the subsidiary's level of autonomy (e.g., Chang & Rosenzweig, 2001; Elango & Sambharya, 2004; Kim & Hwang, 1992; Pan,

1996). Therefore, we included the level of competitive pressure in the industrial sector, and measured it using the four-item construct suggested by Kim and Hwang (1992). We asked managers to evaluate the degree of instability of their market share, the number of existing and potential competitors, the level of fixed costs relative to value added, and the costs facing the buyer when switching suppliers. Answers to these questions were measured on seven-point Likert-type scales. Cronbach's alpha was .89, thus showing a high internal reliability.

In order to account for a foreign subsidiary's firm-specific assets, we included the degree of asset specificity, which is a core element of TCE and has been argued to lead to lower levels of autonomy (e.g., Anderson & Gatignon, 1986; Cleeve, 1997). Past research has suggested that foreign subsidiaries disposing of superior firm-specific assets may not require equally high amounts of local knowledge and resources (e.g., Anand & Delios, 1997; Cohen & Levinthal, 1990; Gomes-Casseres, 1990; Gupta & Govindarajan, 2000), thus demanding lower levels of autonomy. In addition, previous studies have contended that the possession of firm-specific assets induce MNCs to internalize activities in order to reduce the negative consequences of IJV partner opportunism (e.g., Anderson & Gatignon, 1986; Cleeve, 1997; Delios & Beamish, 1999; Hennart, 1991). The degree of asset specificity was measured using a three-item construct suggested by Brouthers and Brouthers (2003). Managers assessed the level of human asset specificity, the proprietary nature of products/services provided, and the amount of assets that would have been forgone outside the specific transaction. Again, seven-point Likert-type scales were used, and Cronbach's alpha was satisfactory (.780).

Finally, we included the age of the subsidiary as a control variable, since studies have suggested that with increasing age MNCs increase their level of control and thus reduce autonomy over foreign subsidiaries (e.g., Anderson & Gatignon, 1986; Cleeve, 1997). We

used the length of time in years that had passed since the subsidiary was first established in the PRC as a measure for subsidiary age (also see Hennart, 1991).

Results and discussion

The data gathered in our questionnaire survey was analyzed using the SPSS 16.0 statistical package.

First, we conducted correlation analysis to check for signs of multicollinearity. Table 1 shows the means, standard deviations and bivariate Pearson correlations. Since there were a number of statistically significant inter-variable correlations, concerns about multicollinearity are warranted (Hair et al., 1995). To test for multicollinearity, we ran a regression and calculated VIFs. Results did not show any concerns for multicollinearity with no VIF above 8 and the mean of all VIFs below 1 as recommended by Chatterjee and Price (1991). In order to further mitigate multicollinearity concerns stemming from the integration of the interaction terms and to facilitate interpretation variables were standardized before creating the interaction term. Some scholars recommend centring variables and aligning their mean to 0 in order to reduce unwanted effects caused by multicollinearity (Aiken & West, 1991; Cohen et al., 2003; Frazier et al., 2004). However, the method chosen for this study was standardization. While having the same effect in terms of multicollinearity as centring, standardized variables offer some other advantages: With a SD equal to 1 and a mean equal to 0, the plotting and the interpretation of the interaction are easier (Frazier et al., 2004). Also, standardization helps to draw comparisons between different models, as non-standardized variables are dependent on their unique unit of measurement.

In order to test our hypotheses we conducted a hierarchical moderated multiple regression (Aguinis, 1995). Our hierarchical multiple regression consists of three steps: First, the control variables (age of subsidiary, asset specificity, and competitive pressure in industrial sector)

were entered. Second, independent (distance) as well as the moderator variables (ownership form) were entered to control the main effects. The moderator variable was included because the direct effect of the moderator on the dependent variable (autonomy) was tested and “moderator variables always function as interdependent variables” (Baron & Kenny, 1986, p. 1174). Third, the interaction terms were entered in the regression model. Moderator effects are existent if the interaction term turns out to be significant (Baron & Kenny, 1986). In hierarchical multiple regression, the effect size of an interaction is illuminated by the R^2 change statistics and the significance of this change (Field, 2005). Table 2 provides the results of the regression analysis.

===== INSERT TABLE 1 ABOUT HERE =====

===== INSERT TABLE 2 ABOUT HERE =====

In Hypotheses 1a), 1b), 1c), and 1d) we suggested that with growing distance MNCs increase their level of autonomy over foreign subsidiaries. We argued that distance enhances the external uncertainty for subsidiaries operating abroad, and thus contributes to higher transaction costs. In order to reduce these transaction costs stemming from external uncertainty we suggested that MNCs grant their foreign subsidiaries higher levels of autonomy, so they can more effectively respond to the highly distant local environment. As can be drawn from the results in Table 2, none of the four hypotheses are supported by our data. Direct effects of cultural, political, and economic_{demand + supply} distance on subsidiary autonomy are low and non-significant in all models. Moreover, the coefficients for political (-.116) and economic_{demand} distance (-.020) are negative, indicating lower levels of autonomy in response to increasing distance. While these results are surprising from a theoretical perspective, previous studies have provided similar results (for a review, see Shenkar, 2001). In fact, some authors have reported that MNCs increase their level of control in response to

increasing distance. The general underlying assumption for this line of reasoning is that increasing distance enhances agency costs since it is more difficult for firms to verify claims from distant agents (Shenkar, 2001). In order to verify the claims of agents and to enhance operational certainty, firms internalize their activities and reduce the autonomy of their subsidiaries. Anand and Delios (1997), Boyacigiller (1990), Erramilli and Rao (1993), and Puck et al. (2009) provide empirical support for this line of reasoning.

Moreover, the insignificant findings regarding economic distance may be attributed to China's economic heterogeneity. Both the demand and supply-side economic development differs considerably among provinces. Even though China's GDP per capita is relatively low, the incomes in Shanghai and Beijing are rapidly rising and are approaching levels, which are comparable to developed countries. In a similar vein, the availability of financial resources substantially varies among provinces, with Shanghai and Hong Kong disposing of the best-developed private capital markets in the PRC. Finally, another reason for the insignificant finding may be the suggested moderating effect of ownership type.

However, with regard to the interaction effects (hypothesis 2) the results are mixed. While we found empirical support for a strong interaction effect of ownership type on the cultural distance – autonomy relation, the proposed effects on the political and economic distance – autonomy relationships cannot be confirmed by our data. Even more, for political distance we obtained the opposite effect than predicted on a low level of significance. Figure 2 visualizes the interaction effects for cultural and political distance; effects for economic demand + supply distance are not presented due to the highly insignificant coefficients and R^2 changes.

===== INSERT FIGURE 2 ABOUT HERE =====

Hypothesis 2 proposed that the ownership form (IJV / WoS) positively moderates the relation between cultural distance and autonomy. Our findings support this hypothesis, displaying a

positive and statistically significant relationship (1.523; $p < .01$). The argument leading to this hypothesis was that the type of contractual agreement (IJV / WoS) influences the level of control MNCs can exert over their foreign operations (Williamson, 1985). Moreover, we suggested that cultural distance increases both the internal and external uncertainty, and that the interaction of internal and external uncertainty determines the level of autonomy MNCs grant their foreign subsidiaries. We reported that IJVs and WoS differ in their capacity to confront internal and external uncertainty. While IJVs represent neoclassical contracts and are characterized by high levels of internal uncertainty (due to the involvement of a local IJV partner), WoS represent relational contracts and are therefore characterized by low levels of internal uncertainty. We argued that MNCs respond to this increased internal uncertainty by retaining higher levels of control (and thus lower autonomy) in IJVs than in WoS. With regard to external uncertainty, previous studies have reported that WoS have a greater capacity to confront external uncertainty than IJVs. In order to reduce external uncertainty TCE suggests augmenting the level of autonomy. Consequently, we suggested that MNCs react to this increased external uncertainty by granting WoS higher levels of autonomy than IJVs and the results support our line of reasoning. We found that MNCs strongly increase the autonomy of their WoS with increasing cultural distance, while they reduce the autonomy of IJVs in the same situation (see Figure 2).

Besides cultural distance we predicted that the type of ownership form (IJV / WoS) positively moderates the relationship between political distance and autonomy. Unlike our assumption, the findings from table 1 surprisingly show that the type of ownership form (IJV / WoS) has a negative impact on the relationship between political distance and autonomy, which is, however, statistically significant only on the 10%-level ($-.632$; $p < .1$). As Table 2 shows, MNCs tend to slightly increase the autonomy of IJVs as a consequence of distance while they strongly reduce the autonomy of WoS in the same situation. A possible explanation might be

that in order to succeed in distant political environments actions and behaviours may be required that are not readily accepted in Western-oriented home countries of MNCs (e.g., bribery). Thus, MNCs might grant their IJVs higher levels of autonomy, so the local partner can more autonomously deal with these issues, and the MNCs do not get directly involved. Slangen and van Tulder (2009, p. 280) confirm that “managers of local firms generally know better how to deal [...] with corrupt government officials or other local stakeholders infringing the law” (also see Rodriguez et al., 2005). WoS, on the other hand, cannot hand these issues over to local partners; parent firms therefore reduce the level of autonomy of their subsidiaries to maintain subsidiary behaviour in line with the standards (e.g., code of conduct) of the parent firm.

With regard to the relationship between economic _{demand + supply} distance and autonomy the type of ownership form (IJV / WoS) cannot be identified as a moderator, since both coefficients are highly insignificant (-.037 and .236).

These mixed results in terms of interaction effects might overall be attributed to a hierarchy of the dimensions of distance. Differences in the economic environment are usually observable for foreign subsidiaries. Furthermore, economic differences are all rooted within a capitalistic system. Even though this system might “work” slightly different in China, the basic rules remain the same. Thus, economic distance may neither contribute strongly to internal nor to external uncertainty. While political systems may differ substantially (as it is the case in China compared to most other political systems), the rules of the system are relatively easy to observe and written rules (e.g., constitution, laws) can be retained by everyone (Scott, 1995). Thus, political distance has an impact on external and internal uncertainty, but not on a very high level. Finally, cultural differences are deeply embedded in social norms, beliefs and values. Many aspects of culture can hardly be obtained directly (Schein, 1983). As a consequence, foreign subsidiaries may find it easier to learn about and adapt to differing

political and economic conditions than to cultural differences. In a similar vein, Gaur and Lu (2007) note that foreign subsidiaries can easily obtain information about formal, political differences by drawing on secondary information. They report further that cultural differences are, however, rooted in the social environment and are thus harder to grasp and interpret by foreigners (also see Demirbag et al., 2007). In addition, Child (1981) maintained that cultural differences are more important than other macrovariables, such as technology or organizational structure (also see Richards, 2000). Thus, cultural distance may have the strongest effect on both internal and external uncertainty. Figure 3 illustrates this argumentation.

===== INSERT FIGURE 3 ABOUT HERE =====

None of the three control variables included in our analysis entered significantly into the model. The competitive pressure in an industrial sector has been argued to influence the subsidiary's level of autonomy (e.g., Chang & Rosenzweig, 2001; Elango & Sambharya, 2004; Kim & Hwang, 1992; Pan, 1996), with higher competitive pressure leading to lower levels of autonomy. However, we did not find a statistically significant influence for this variable. This result may be attributed to the fact that some foreign firms that have been operating in the PRC for some time have developed ways of dealing with high competitive pressures that do not demand high levels of control over the subsidiary.

Asset specificity has been suggested to translate into lower levels of autonomy (e.g., Anderson & Gatignon, 1986; Cleeve, 1997). However, we did not find support for this relationship. A first possible explanation for the non-significance of asset specificity in explaining subsidiary autonomy in the PRC may be the high degree of product piracy and the still insufficient protection of (intellectual) property rights (Holtbrügge & Puck, 2008; Zhao, 2006). The sampled foreign firms could have been reluctant to transfer assets of high

specificity to China owing to the experience of earlier market entrants that experienced the dissipation of their firm-specific advantages (FSA). A second possible explanation could be that foreign firms have already developed safeguards to protect their FSA (Hamel et al., 1989) that do not require high levels of control.

Finally, we included the age of the subsidiary as a control variable, assuming in line with past research that over time MNCs reduce their level of autonomy over foreign subsidiaries (e.g., Anderson & Gatignon, 1986; Cleeve, 1997). Again, the age of the subsidiary did not play a significant role in our analysis.

Limitations and implications

Although our study yielded interesting results, it is not without limitations. The relation between distance and autonomy fits well within TCE; however, the theory has been subject to criticism. Many scholars criticize that transaction cost theory views transactions as singular and independent from each other (e.g., Chang & Rosenzweig, 2001; Ghosal & Moran, 1996; Inzerilli, 1990; Kim & Hwang, 1992; Makino & Neupert, 2000; Tsang, 2000). According to these researchers, transaction cost theory would ignore the following two facts. (1)

Transactions are interdependent. It seems reasonable to argue that overtime the internal uncertainty stemming from partner opportunism decreases since IJV partners have found means of handling conflicts and tensions. Moreover, internal uncertainty may be reduced by partner-specific variables (e.g., mutual trust and commitment) and thus affect the level of autonomy (Beamish & Banks, 1987). (2) Decisions are not singular. Some activities, such as the provision of autonomy, may not be efficient from a TCE-perspective but contributes to the overall efficiency of the organization.

Furthermore, our sample was limited to foreign subsidiaries in the PRC. Past research has suggested that in high growth markets, such as China, MNCs prefer to retain control and thus

reduce autonomy in order to exploit economies of scale (e.g., Agarwal & Ramaswami, 1992; Brouthers, 2002), which may affect our findings. Future research should include a broader geographic sample to address this potential shortcoming.

Another limitation of this study is that we analyzed the level of autonomy only at the subsidiary level. Future studies should look at both sides (MNCs and foreign subsidiaries) in order to test for possible differing perceptions. Moreover, we applied an MNE-centric approach (Hennart, 2009). We only assessed how distance influenced the uncertainty and thus the level of autonomy of foreign subsidiaries. However, the local partner in IJVs perceives the level of uncertainty differently and thus may prefer to grant the IJVs deviating levels of autonomy. Future research could further analyse these issues.

In addition, the mean size of the parent firms (82,280 employees) and the mean size of the subsidiaries (689 employees) were relatively large. Larger firms have more experience and resources in order to deal with internal and external uncertainty stemming from distance and thus might grant differing levels of autonomy. In order to enhance our understanding future studies should verify whether distance influences the level of autonomy SMEs grant their foreign subsidiaries in a similar way.

A further limitation concerns the measurement of constructs, their subjective evaluation by a single firm representative and the resulting common method bias. While we have employed scales that have been suggested in existing research, few of these scales have been validated for use in cross-cultural research design. This shortcoming can be regarded as one of the main problems of current research in international business (e.g., Sireci et al., 2006). Therefore, the cross-cultural validation of measurement constructs should be considered among the most important issues in current international business research. Although we have taken into account the various precautions suggested in the literature to minimize common method bias

in our research design, this problem remains a danger for the validity of our results, albeit at a relatively low level. Despite these limitations, this study enhanced our knowledge on subsidiary autonomy and provides a number of implications for theory and practice.

The purpose of this study was to analyze the effects of distance on the provision of autonomy – a core management-strategy through which MNCs protect and manage their foreign subsidiaries. Prior empirical studies have produced conflicting results on the distance – autonomy relationship. In addition, they have not simultaneously controlled for different ownership modes. By basing our argumentation on TCE we hypothesized that distance increases uncertainty and thus influences the level of autonomy MNCs grant their foreign subsidiaries. Moreover, we contended that the effects of distance on autonomy depend on the type of ownership mode (IJV / WoS) since distance not only enhances the external but also the internal uncertainty in IJVs and WoS. Thus, we argued that the interaction of internal and external uncertainty determines the level of autonomy MNCs grant their foreign subsidiaries. Contrary to previous studies, we conceptualized distance as a multi-dimensional construct consisting of cultural distance as the informal part as well as political and economic distance as the formal part (Ghemawat, 2001; Slangen & van Tulder, 2009).

In order to test our hypotheses we gathered the data in our study through a questionnaire survey among foreign investors in the PRC. Our findings yielded mixed results. While direct effects of cultural, political, and economic demand + supply distance on subsidiary autonomy were low and insignificant, we found a strong interaction effect of ownership type (IJV / WoS) on the cultural distance – autonomy relation. On the theoretical side, our findings provide strong support for the necessity of a simultaneous analysis of internal and external uncertainty in IB research. Future research applying TCE reasoning is strongly recommended to analyze both sides of the uncertainty issue.

Besides contributing to the theoretical and empirical development in this field, our findings also have practical implications. MNCs can use our findings and design the autonomy of their foreign subsidiaries in way to cope with the overall uncertainty faced in distant environments. More precisely, MNCs may grant WoS in culturally distant environments higher levels of autonomy, so they can more effectively reduce the external uncertainty stemming from distance and exploit local market opportunities. In the case of IJVs MNCs may retain control and reduce their level of autonomy in order to mitigate the enhanced internal uncertainty stemming from cultural distance. Furthermore, our results can also help mitigate the autonomy conflicts between MNCs and their foreign subsidiaries.

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FIGURES

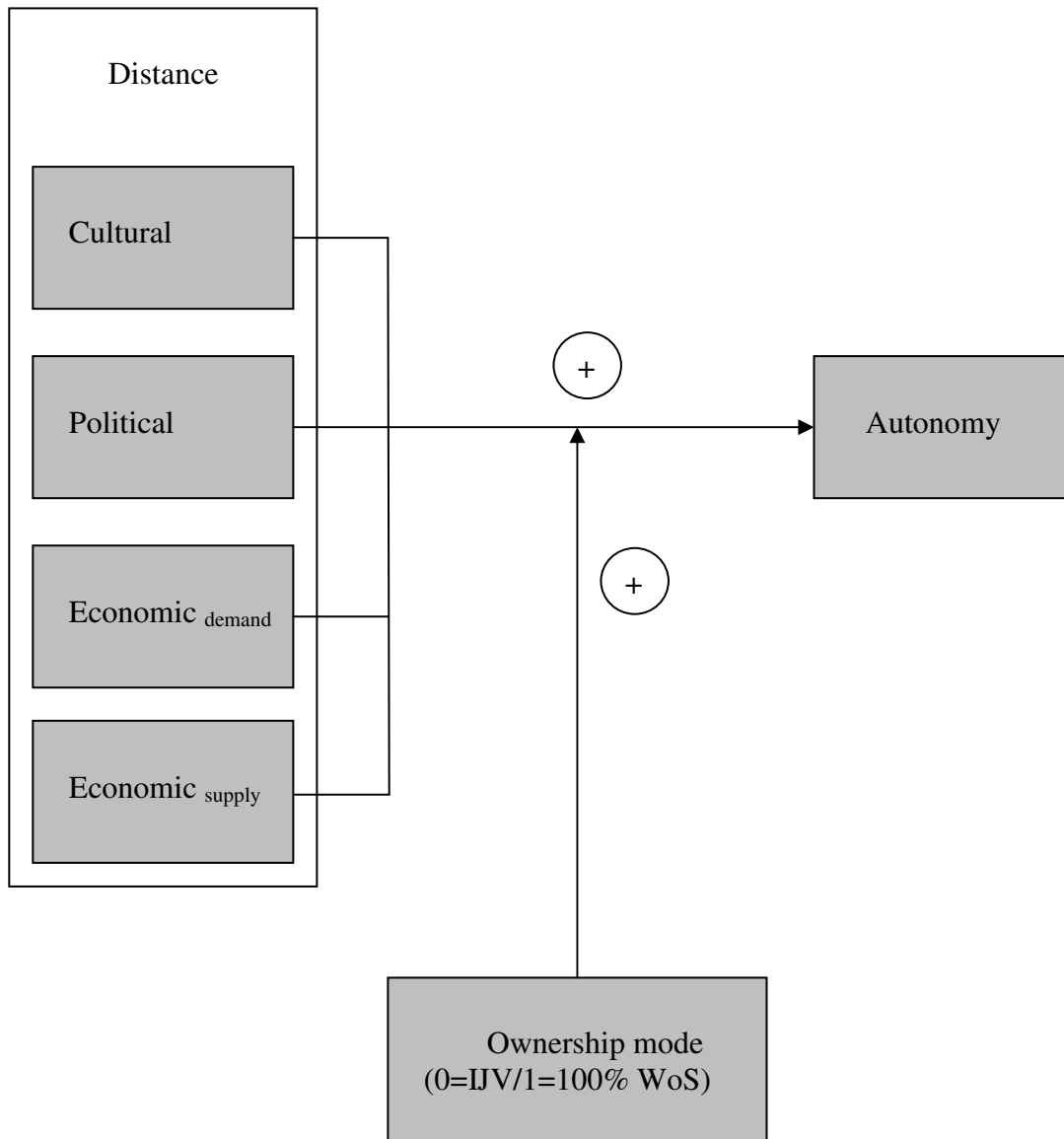
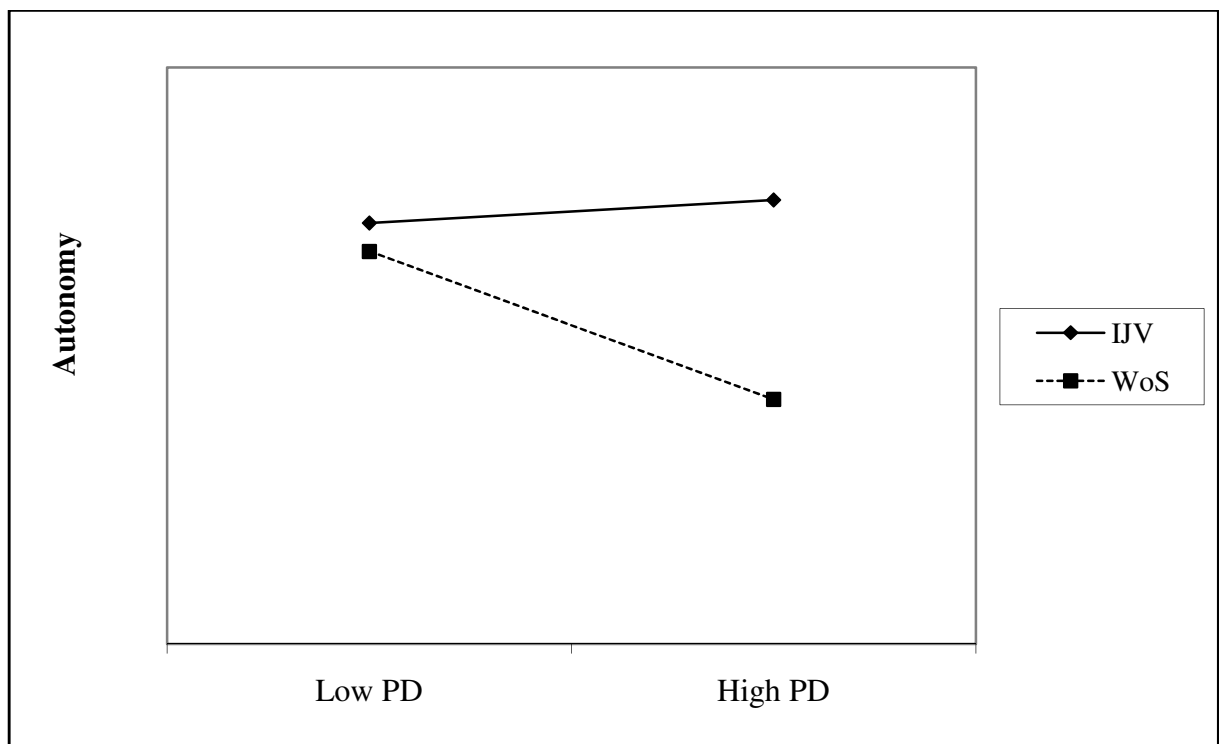
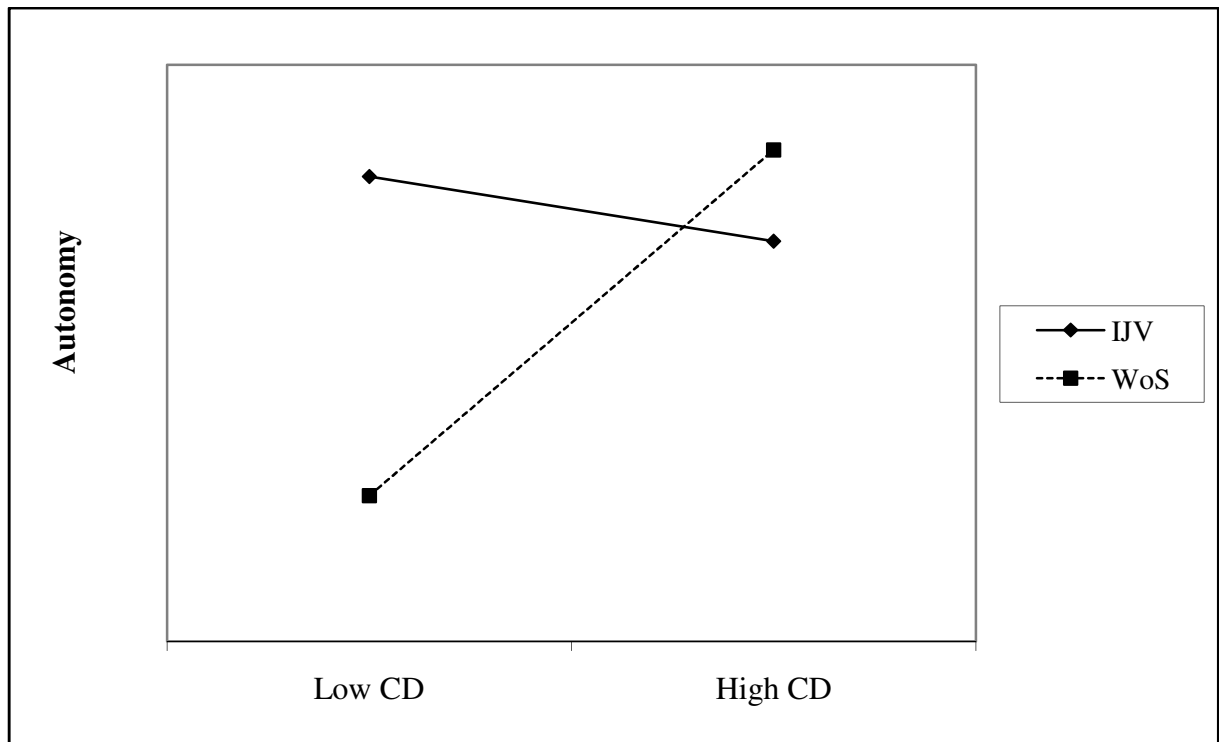
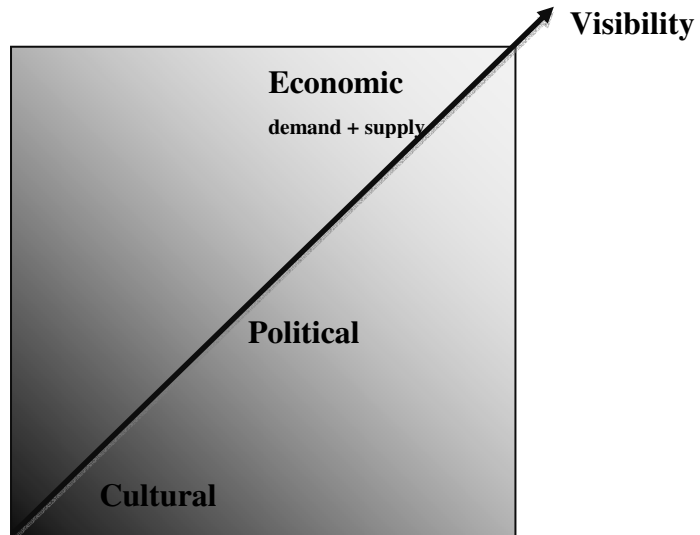


Figure 1: Research Model



1 Figure 2: Plotted Interaction Effects

FRAMEWORK



2 Figure 3: Visibility of the dimensions of distance

Variable	Mean	SD	70 1	65 2	59 3	52 4	44 5	35 6	25 7	14 8	3 9
1. Subsidiary autonomy	4.571	1.201	1								
2. Cultural Distance	4.205	.806	.064	1							
3. Political Distance	3.44	.848	-.116	.232*	1						
4. Economic Distance _{demand}	30078.571	3737.880	.040	.137	-.197**	1					
5. Economic Distance _{supply}	.876	.516	.027	-.466*	.067	-.029	1				
6. Ownership form (IJV / WoS)	.630	.484	.199*	.130	-.003	.187*	-.034	1			
7. Age of subsidiary	8.43	6.128	-.083	-.092	-.054	.110	-.072	-.107	1		
8. Asser specificity	3.907	1.624	-.149	-.044	.135	.001	.014	-.112	-.089	1	
9. Competitive pressure in industrial sector	5.32	1.388	-.094	.179*	.194**	.027	-.107	-.089	.119	.231**	1
* $p < .05$ ** $p < .01$ $n = 182$											

Table 1: Means, standard deviations and correlations

		Subsidiary autonomy							
<i>Step 1: Control variables</i>									
	Age of subsidiary		-.081		-.052		-.048		
	Asset specificity		-.135 [†]		-.099		-.078		
	Competitive pressure in industrial sector		-.044		-.027		-.039		
<i>Step 2: Main effects</i>									
	Cultural Distance				.093		-.201		
	Political Distance				-.116		.085		
	Economic Distance _{demand}				-.020		-.028		
	Economic Distance _{supply}				.073		-.045		
	Ownership form (IJV / WoS)				.164*		-.845		
<i>Step 3: Interaction effects</i>									
	CD * Ownership form (IJV / WoS)						1.523**		
	PD * Ownership form (IJV / WoS)						-.632 [†]		
	ED _{demand} * Ownership form (IJV / WoS)						-.037		
	ED _{supply} * Ownership form (IJV / WoS)						.236		
	Change in R ²				.042		.058		
	F Change				1.573		2.797*		
	R ²		.028		.071		.128		
	Adj. R ²		.012		.028		.066		
	F		1.725		1.640		2.071*		
[†] $p < .1$; * $p < .05$; ** $p < .01$; n=182									
CD = Cultural Distance; PD = Political Distance; ED = Economic Distance									
Table 2: Hierarchical Regression Analysis									

