Track: 11 MNE strategy and organization

Management Costs Incurred by Headquarters' choice of Foreign Operation Method

ABSTRACT

Studies concerning the choice between foreign greenfields and foreign acquisitions have mainly focused on the determinants of this choice. However, operating through foreign subsidiaries will seldom be the fundamental end-solution. Only a handful of studies have been occupied with what happens after the choice has been made. Hence, this paper addresses two important calls for future studies: (i) identification and measurement of management costs in greenfields and acquisitions; (ii) testing the effects of the entry mode choice on the relationship between management costs and subsidiary performance. 145 MNE headquarters-subsidiary relations are studied and significant differences in management costs effects are observed, which might have important implications on how these subsidiaries should be managed. FDI in the form of greenfield subsidiaries incurs significantly more bargaining- and information costs compared to acquisitions, and vice versa, acquired subsidiaries suffer significantly more monitoring- and bonding costs than greenfields.

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INTRODUCTION

Multinational enterprises (MNEs) employing foreign direct investments (FDIs) through greenfields and acquisitions oftentimes perceive costs in the post entry management process not anticipated ex ante. These management costs arise because of uncertainty, information asymmetries, and potential for opportunistic behavior creating control and adaptation problems between the HQ and subsidiary and varies with the choice of foreign operation method, i.e. greenfield or acquisition. One of the salient explanation for FDIs has been the ability to curb transaction costs when markets for intermediate goods and services are failing – i.e. internalizing the transactions creates less transaction costs than executing the transactions through fairly imperfect markets (Buckley & Casson, 1976; Dunning, 1981; Hennart, 1982; Rugman, 1981; Williamson, 1975, 1985). While some are referring to such costs as ”transaction costs” without any further classifications, others are distinguishing between the costs of organizing transactions in and across markets, i.e. ”transaction costs”, and the costs of organizing resources within firms, i.e. ”management costs” or ”governance costs”. In this paper we will follow the latter approach by denoting internal transaction costs as “management costs” (Demsetz, 1993), meaning that hierarchical structures do not rule out transaction costs within the organizational boundaries of the MNE, neither guarantee that these costs are at the same level across analogous structures and comparable company cases. Any type of entry mode, greenfield or acquisition, will create implementation costs, i.e. costs associated with the implementation of the decision to enter the foreign market through a specific operation method (see similar reasoning of hidden costs in offshoring (Larsen

et al., 2013) or unanticipated costs in implementation processes (Dibbern et al. 2008; Reitzig & Wagner, 2010)).

Most studies concerning the choice of foreign operation method have focused on the determinants of the choice of greenfield or acquisition (Brouthers & Brouthers, 2000; Brouthers & Dikova, 2010; Dikova & Witteloostuijn, 2007; Slangen, 2013; Slangen & Hennart, 2007, 2008). However, in a growing number of studies the focus is also on different *ex post* performance effects of the entry mode choice (Brouthers, 2002; Harzing, 2002; Slangen & Hennart, 2008). Yet, to our knowledge, only a limited number of studies have been occupied with identifying and measuring management costs incurred by greenfields and acquired subsidiaries (Benito *et al.*, 2005; Slangen & Hennart, 2008; Tomassen *et al.*, 2012). Similarly, with some notable exceptions (see Harzing, 2002), few studies have been engaged with the management implications of the differences in such costs.

The aim of this study is twofold: First, we will address Slangen & Hennart's (2008) call for a direct measurement of management costs by specifying four different types of costs. The four categories of costs are; Bargaining-, Monitoring-, Bonding-, and Information costs, and we are subsequently arguing that these types of management costs are differently affected by the MNE headquarters' selection of foreign operations method. Second, we will investigate the effect the entry mode decision has on the relationship between management costs and subsidiary performance. An underlying assumption in our paper is that MNEs are choosing hierarchical solutions, due to a perceived necessity of taking control over foreign activities performed in a context characterized by uncertainty, information asymmetries, and potential for opportunistic behavior (Buckley & Casson, 1976; Hennart, 1991). However, the need for control differs, which, according to Harzing (2002), is a consequence of, among other things,

the MNEs international strategy. Companies following a global strategy need a higher degree of control and therefore have a propensity of choosing de novo operations. While those that are following a multi-domestic strategy will have a higher propensity to acquire. Since management costs, as we define them, occur as a consequence of actions initiated by the MNE headquarters due to the need for both control and alignment of the subsidiary, we believe that there is a significant difference in categories of management costs across greenfields and acquired subsidiaries. Hence, we expect that the entry mode choice will influence the relationship between management costs and subsidiary performance. This have also implications for how differently formed subsidiaries ought to be managed in the post entry period.

The reminder of the paper unfolds like follows: First we will develop theory and hypotheses, then we describe our method and measurements, subsequently we examine the received results and discuss the implications for theory and management, and finally we consider future research.

MANAGEMENT COSTS IN GREENFIELDS VS. ACQUISITIONS - HYPOTHESES

As stated in the introduction, operating through foreign subsidiaries will not be a fundamental end-solution in curbing costs since choosing high control modes such as greenfield or acquisition *ex ante*, neither rules out positive management costs *ex post*, nor assures that management cost levels are essentially equal across MNEs. Management costs are costs linked to the manag*ing* of the relationship between HQs and the subsidiary and the most efficient management structure will be the one minimizing these costs over time. For instance, information asymmetries between MNE headquarters and subsidiary create adaptation and control problems, substantial

resources often have to be used on supervising and nurturing of mutual rules and goals, communication distortions, etc. These are all common characteristics of normal business activities – perhaps even more evident in international business activities, although significant variation must be expected. Management costs can therefore generally be expected to be widespread in MNEs. Consequently, understanding such costs, and organizing and managing foreign operation in ways that minimize them can possibly be turned into a strong competitive advantage for MNEs (Tomassen *et al.*, 2012).

Others emphasize the importance of building strong corporate cultures by sharing common values (Hedlund, 1986). Further, subsidiaries can be tightly supervised by headquarters or another corporate unit; operational procedures can be formalized and implemented; the results in the subsidiary may be continuously evaluated through detailed planning, goal setting, and budgeting systems; strong corporate cultures can be developed and nurtured; and finally, extensive use of formal (e.g. common project groups, committees, and task forces) and informal communication (e.g. daily face-to-face contact) may assist in ensuring that the subsidiary is "on the right track" (Harzing, 2002, pp. 226-227). Hence, in general we would expect significant differences in the headquarter-subsidiary relationship between greenfields and acquisitions, which also have consequences for the type of management costs that affect subsidiary performance. In addition, whatever motives lie behind the choice of operation mode, when the subsidiary becomes operative, the choice will have its own consequences on the daily management of the subsidiary. As a result, it is expected that there will be differences across different modes with respect to management costs.

The control mechanisms described by Harzing (2002) creates management costs, and according to earlier research ex post management costs can be classified into four types: bargaining-, monitoring-, information-, and bonding costs (Benito & Tomassen, 2010; Tomassen & Benito, 2009). In this empirical setting these costs occur from intra-organizational coordination of the HQ – subsidiary relationship.

Bargaining costs arise through the renegotiations and changes in agreements between HQ and its subsidiary (Andersson et al., 2007). Both time and resources spent on bargaining, and losses occurring as a result of inefficient agreements between the HQ and subsidiary can be classified as bargaining costs (Dahlstrom and Nygaard, 1999). Companies often have to use more resources in a greenfield than in an acquired subsidiary before the subsidiary is fully operative. For example, in a greenfield, all the distribution agreements have to be developed from scratch, and probably the majority of the workforce across the whole organization must be recruited and supervised. In addition, some of these recruitments fail which cause additional bargaining costs. Organizational procedures and routines are to be developed and implemented. Agreements with sub-contractors have to be negotiated and renegotiated due to mismatches and failures, and cultural differences may increase the propensity to fail. Hence, the management may have to use substantial resources in learning about and acquainting itself with the local business environment. In addition, disagreements regarding diverse aspects of the transfer pricing due to shifting conditions occur. Likewise, insufficient knowledge sharing within the MNC due to the incongruity concerning incentive systems for local unit managers based on financial results and the often explicit promotion of knowledge sharing are common challenges. As knowledge sharing often is time consuming and in certain instances also can diminish a subsidiary's relative position, local management can therefore impede the sharing of

important knowledge if compensation is not agreed upon. The above examples are bound to activate some degree of bargaining between HQ management and the subsidiary (Mahnke et al., 2009). Hence, we propose the following hypothesis:

H1: *The relation ship between bargaining costs and subsidiary performance differs significantly across entry modes (i.e. greenfields and acquisitions).*

Monitoring costs arise from HQ establishing control mechanisms to constrain shirking and when reassuring that agreements are met (Dahlstrom and Nygaard, 1999; Hennart, 1991). Moreover, when it is problematic evaluating the diverse features of important value creating activities in the subsidiary, it is essential to impose initiatives increasing control. As MNEs, by definition, pursue activities in different locations they tend to have high auditing costs, language differences, and diverse accounting and legal systems. MNEs are therefore often confronted with higher monitoring costs than purely domestic companies. Such costs are manifested in, for example, time spent on controlling delivered services from the foreign subsidiary, resources used on accounting issues, and costlier travel expenses to control working effort. Likewise, resources and time are employed on controlling deliveries of crucial inputs to foreign subsidiaries (Tomassen and Benito, 2009).

Since the headquarters-subsidiary relationship in a MNE, in many respects, can be viewed as a principal-agent relationship, the headquarters, with somewhat limited local knowledge, has to rely on the subsidiary's ability and intent to exert the mandate given from the headquarters. It is therefore important for the MNE to ensure that the subsidiary behaves in accordance with the mandate by inducing different control initiatives (Harzing, 2002; Hennart, 1991). This can be done in different ways. The use

of expatriates is common and especially the controller function is typically an entrusted position (Harzing, 2001). Further, decision-making of a more strategic character may be centralized at headquarters, and in some cases; direct supervision of the subsidiary is implemented. Standard operating procedures might be developed and implemented, and continuous evaluation of the results in the subsidiary, as well as implementation of detailed planning systems. Greenfields make it easier for MNEs to leverage their resources into the entered market since they are better matched with the parent with respect to culture, systems, and routines (Hennart, 1991). This might, as discussed below, reduce some of the efforts of binding the subsidiary to the headquarters, but on the other hand increase some of the control precautions taken due to the type of specific assets that are exploited. In addition, there will often be substantial information asymmetries between MNE headquarters and acquired subsidiaries – at least in the beginning, which often lead to "moral hazards" (Knight, 1921, p. 249; Williamson, 1985), and thereby a need for substantial monitoring initiatives – especially if the take-over is a hostile one.

In general, as reported in former studies, the control level will be higher towards greenfield investments than towards acquired subsidiaries, at least in the initial phase (Harzing, 2002), Hence, we propose the following hypothesis:

H2: *The relationship between monitoring costs and subsidiary performance differs significantly across entry modes (i.e. greenfields and acquisitions).*

Information costs result from ineffective communication and coordination between HQ and a subsidiary, which curbs headquarters capability in reacting rapidly to shifting conditions. In an environment characterized by diversity and volatility, adaptation

issues are of particular importance. Appropriate responses to environmental changes require prompt and correct information, but typically much of the information received from, say, a foreign unit is incomplete, or too voluminous, or too poorly formulated to provide a proper basis for decision-making regarding adequate courses of action. Information costs are simply the opportunity costs of ineffective and inappropriate responses. Assuming the case that a subsidiary is not deliberately witholding information and is not deceitful it is clearly so, at least early in the process, that greenfield subsidiaries lacks the "insider" position that acquired subsidiareis have in the local network and country environment. This inevitably means that it is much more difficult for a greenfield subsidiary to feed adequate information about changes and opportunities up to headquarters compared to acquired units as they simply are not as well acquiented with local particularities. Depending on this familiarity of the host country environment we propose that the information costs will differ significantly in the two different types of entry modes, hence we hypothesize:

> H3: *The relationship between information costs and subsidiary performance differs significantly across entry modes (i.e. greenfields and acquisitions).*

Bonding costs, in general, follow from the need for securing the commitments made by the involved parties. Hence, bonding in a HQ -- subsidiary relationship will comprise a wide-ranging set of constructive activities that may initiate commitments in a relationship. Such activities could include actions like establishing personal ties between parties, developing common identities, building incentive systems, etc. Firms that invest abroad combine firm-specific advantages, developed at home and exploited in a foreign country at low marginal costs, with assets available abroad. It is the level

of specific advantages the MNE is exploiting abroad that determines whether greenfields are preferred to acquisitions or vice versa (Hennart & Park, 1993). When firm-specific advantages such as superior organizational abilities and/or technical skills are easy to separate from the organization, an acquisition may be preferred. On the other hand, if the advantages are so deeply embedded in the organization that it is difficult to combine them with a takeover candidate, it is more likely that the foreign investment will be made as a greenfield. Hence, there might be less requirements for bonding activities in de novo entries. A take-over, on the contrary, demands proactive bonding activities since acquired firms have their own history, knowledge, reputation and workforce (Jemison & Sitkin, 1986). Major changes among local personnel are seldom necessary due to competencies and resources embedded in the company, but it will often be important to bring the acquired firm more in line with the goals of the MNE. Therefore, a higher level of bonding costs should be expected when the subsidiary is acquired compared to when it is a greenfield. Hence, we propose the following hypothesis:

H4: The relation ship between bonding costs and subsidiary performance differs significantly across entry modes (i.e. greenfields and acquisitions).

METHODS

Data collection and sample description

The empirical context for this study is the relationship between Norwegian MNEs and their foreign subsidiaries. The sampling frame was 346 MNEs, extracted from a database covering all foreign direct investments within a period of 7 years (1993-2000). Information regarding the independent dependent variables and company characteristics was collected through a mailed survey.

Given the focus of this study, the key informants were those in the MNE that had appropriate knowledge about the research issues and that were both willing and able to provide information by answering the questionnaires (Campbell, 1955). The total number of usable responses was 160. This gives a usable response rate of approximate 46 percent. The data were checked for non-response bias following the procedure proposed by Armstrong and Overton (1977). We also tested for common method biases. The analysis indicated no significant differences in the variables of interest between late and early entrants, and no problem with common method biases. Finally, variables from the survey responses were checked against company reports and published data where possible. A high degree of correspondence between published data and survey responses were found, supporting the veracity of the survey responses.

Development of measures

Measures were developed according to the procedures for uni-dimensional multi-item measures recommended by Gerbing and Anderson (1988). A preliminary instrument was tested on six key informants, who advised on problems concerning terminology, instructions, relevance of questions and scales, and size of the questionnaire. Feedback was also actively sought from five scholars. These procedures led to some minor corrections in the questionnaire. The final questionnaire was tested on four representative persons. No further problems turned up regarding the scales. To reduce possible consistency effects, the ordering of the questions followed the recommendations given by Salancik and Pfeffer (1977). In addition, to alleviate potential common method variance problems the anchors for some of the scales were varied.

Measurement of management costs

The management cost variables are all measured by multi-item reflective scales (Bollen & Lennox, 1991), and can therefore be further evaluated with regard to reliability and uni-dimensionality.

Bargaining costs: Measured by two items (Dahlstrom & Nygaard, 1999).

Monitoring costs: These are expenditures related to controlling the fulfillment of contractual agreements. Initially, a six-item scale was constructed; three items taken from Dahlstrom and Nygaard (1999), but slightly changed to fit the research setting, and three self-developed. A final three-item scale was used.

Bonding costs: Bonding can be conceived as activities that promote commitment in a relationship (Heide & John, 1988). In the present context, bonding costs are incurred as a result of actions that bind a foreign unit closer to the MNE. Since bonding costs, to our best knowledge, have not been operationalized in former studies, all four items on bonding costs were self-developed.

Information costs: These are the opportunity costs of not being able to respond effectively to changes in the environment. The items mapping this construct were taken from Dahlstrom and Nygaard (1999), who focused on information aspects of maladaptation. We sought to improve on their measures by separating the item on information incompleteness as well as overload into two separate items; incompleteness and volume would appear to be two rather different aspects of the construct. In the end, the variable was measured on a three-item scale.

Validation of measurements

Uni-dimensionality. The following procedures were used to evaluate the scale; (i) un-rotated principal component analysis (PCA) with subsequent (ii) pro-max rotated PCA were conducted, (iii) inter-item correlations and (iv) item-to-total correlations were

assessed, and finally, (v) a confirmatory factor analysis (CFA) was done in LISREL 8.8.

Excellent fit measures were obtained for the measurement model (N=160): RMSEA: .014; chi-square 97.00 (df 94), *p-value* .3956; AGFI: .90; CFI: .99. (Steiger, 1990; Jöreskog & Sörbom, 1981; Tanaka & Huba, 1985).

Reliability: Both Cronbach's α and composite reliability for all the scales were above the .70 level.

Discriminant validity: All pair of construct passed the chi-square difference test.

RESULTS

Running split sample OLS-regressions (moderator analysis with a dichotomous moderator), the study demonstrates that different modes generate different management costs effect towards subsidiary performance as presented in table 1, below.

****Table 1 approximately here****

First, in the group of acquired firms, two out of the four management costs variables have significant effects on subsidiary performance. The relationship between "monitoring costs" and "performance" is significant at $p < .001$ in both models ($\beta_{\text{MonCost}} = -.513$, $t = -4.697$ (*Model 1*); $\beta_{\text{MonCost}} = -.545$, $t = -4.879$ (*Model 2*). The same level of significance is observed with the effect of "bonding costs" ($\beta_{\text{BondCost}} = .512$, $t = 4.484$ (*Model 1*); $\beta_{\text{BondCost}} = .484$, $t = 4.484$ (*Model 2*)).

Second, in the group of greenfields, an almost opposite pattern is observed: "bargaining costs" and "information costs" have significant effects at $p < .05$ ($\beta_{\text{BargCost}} = -.313$, $t = -2.863$ (*Model 1*); $\beta_{\text{BargCost}} = -.265$, $t = -2.401$ (*Model 2*); $\beta_{\text{InfCost}} = -.319$, t

= −2.916 (*Model 1*), or at $p < .001$ ($\beta_{InfCost} = -.346$, $t = -3.221$ (*Model 2*)), while the two others are insignificant.

Third, only "industry growth", "international sales ratio", and "age of subsidiary" have to a certain degree significant effects among the control variables. However, it is worth mentioning that the age of the subsidiary does not matter in the group of greenfields.

Fourth, explained variance (adjusted R^2) in *Model 1* ranges from .336 in the group of greenfields to .388 in the group of acquisitions, while Model 2 explain .361 of the variance in performance in the group of greenfields and .424 in the group of acquired firms. Hence, both *Model 1* and *Model 2* are highly significant at $p < .001$.

Even though significant different effects are registered, there is no formal proof of moderator effects (i.e. that the β-coefficients of each type of management costs are significant different from each other). Hence, to examine these observations further, parameters for the management costs were also estimated by running GLM factorial ANCOVA due to the advantages this type of analysis has when examining interaction and moderator variable.[i] Since there is an important assumption about homogeneity of regression slopes between groups when running factorial ANCOVA, a special procedure is available to test whether the slopes are equal or not. If the slopes are significantly different, there are clear indications of moderator or interaction effects in the model. To test this, the model must include only the interactions, and by doing so, the test of between-subjects effects will report significant or insignificant values. Significant F-values are reported if the β-coefficients are really different in the two groups, and if so, a separate slope design (by splitting the sample across the factor, i.e. across entry mode (EM)) is necessary to test for the effects of the predictors in each group. The following F-values were obtained by running this prosedure: ($F_{BargCost}$: $p <$

.10; F_{MonCost}: $p < .10$; F_{BondCost}: $p < .001$; F_{MalCost}: $p < .05$). Hence, the β-coefficients for each type of transaction costs are significantly different from each other in the two groups, and a split sample procedure was therefore conducted in estimating the parameters.

Table 2 presents the complete parameter estimates. Although the β-values and the respective *t*-values are slightly different, the results are very much in line with the OLS regressions presented in Table 1, and since the results reported above show significant slope differences between the two groups on all four management costs, all four hypotheses are supported. There are moderator effects present.

****Table 2 approximately here****

The results suggest that bargaining and information costs play a particularly active role in foreign subsidiaries established as start-ups. Building up a subsidiary from scratch is a demanding process that becomes exacerbated by cultural, linguistic, economic and political differences. It is not surprising that these two management cost effects are so typical among the MNEs with greenfield operations. In contrast, an acquisition has been a going business in the foreign market before the take-over. Much of the external and internal arrangements are settled and relatively transparent, which in turn reduces the likelihood of serious misalignments and renegotiations. Greenfield entries can make it easier for the MNE to leverage its resources into the foreign market since there is little resistance within the subsidiary to be permeated by the culture, administrative systems, and routines of the parent company (Hennart & Park, 1993). The present study shows, as expected, that the opposite is true for entries through acquisition. Acquisitions

demand proactive bonding activities since the acquired firms have their own history, knowledge, reputation and workforce (Jemison & Sitkin, 1986).

DISCUSSION

In general, we stated that the relationships between *ex post* management costs and subsidiary performance were dependent on whether the foreign subsidiary was established as a greenfield or as an acquisition. This logic was originally derived from the assumption that different operation methods cannot differ with regard to performance if everything else is equal but moderate management costs effects on performance (Masten, 1993). This was also confirmed by the tests. Significant different management costs effects were observed across the groups of greenfields and acquisitions. Among the group of greenfields, bargaining costs and information costs seem to play a significant role in determining the performance of the foreign subsidiaries. Building up a subsidiary from scratch can be difficult even though the MNC relatively often uses expatriates in top positions in their greenfield subsidiaries. This is particularly common during the initial phases of the foundation and development of the subsidiary (Harzing, 2002). Distribution arrangements are to be developed and settled, and a whole workforce at different levels in the subsidiary must be recruited and intensely supervised. In addition, the MNC has to deal with cultural, economic and political differences where language barriers are often present. All this, of course, creates an increased propensity to misalignments and renegotiations of former contracts and agreements, and as such, it is not surprising that these two management cost effects are so distinct among the MNCs with greenfield operations. On the contrary, an acquisition has often been an ongoing business in the foreign market long before the take-over. Much of the external and internal arrangements are settled

and relatively transparent, which probably reduces the propensity for serious misalignments and renegotiations.

What about the non-significant relationship between monitoring costs and subsidiary performance observed among the greenfields? Control of a subsidiary can be executed in many different ways. Expatriates can be used at different levels and/or in key positions in the foreign subsidiary. Centralization of important strategic decisions, as well as formalization and implementation of operational procedures are other methods. In addition, output control of different kinds (such as continuous evaluation of results, and financial reports) and planning systems can be employed (Harzing, 2002). Monitoring costs, as defined in this study, cover only part of the costs associated with all the control mechanisms that are available. Hence, the fact that monitoring cost effects turned out insignificant does not imply that no control precautions are executed in the greenfields. It may be that controls are executed by having for example a larger staff of expatriates or other trustworthy people in key positions in the foreign unit. Unfortunately, there are no data available for the whole set of subsidiaries to see if this is the fact,[ii] but according to the findings in Harzing (2002), expatriates tend to be more present in greenfields than in acquisitions. Hence, it seems plausible that control in greenfields is executed more by a direct presence of trustworthy personnel, than by administrative routines managed on an arms-length distance, and that human presence in the foreign unit outshines the monitoring costs effects towards foreign subsidiary performance.

According to TCE-reasoning, greenfields make it easier for the MNC to leverage its resources into the foreign market since the greenfield most often is more in line with the parent company with respect to cultures, administrative systems, and routines (Hennart and Park, 1993). Hence, this may be the reason for the insignificant

presence of bonding cost effects among the greenfields. A take-over, on the contrary, demands proactive bonding activities since acquired firms have their own history, knowledge, reputation and workforce (Jemison and Sitkin, 1986). Major changes among local personnel are seldom necessary due to competencies and resources embedded in the company, but it will often be important to bring the acquired firm more in line with the goals of the MNC; therefore it is not surprising that the bonding cost effects turned out significant among the acquired firms. Likewise, since the presence of MNC-personnel is limited within the acquired subsidiary, parallel with the bonding efforts, arms-length monitoring precautions have to be introduced to reduce the propensity of moral hazard due to information asymmetry between the acquired unit and the MNC (Williamson, 1985).

However, the above arguments might be distorted if there is a mismatch between the intended mode of operation and the realized entry mode. Sometimes, companies that venture abroad have few alternatives regarding the establishment of foreign subsidiaries. Perhaps no potentially buy-ups are available, host government restrictions on either acquisitions or greenfields can be present, and the financial means available for acquiring a local firm can be limited. In such situations, one may anticipate that more resources will be used to bring the acquired firm closer to the initial intentions with the foreign expansion. This may increase the headquarters' control over the subsidiary, but lead to a decrease in local responsiveness (Harzing, 2002). Therefore, increased control in a non-intended entry structure may blur the overall assumption of differences between management costs across foreign operation method.

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Table 1: Split sample OLS-regression

Dependent variable: *Subsidiary performance* Variables	*Model 1*		*Model 2*	
	Beta[a]	*t*-value	Beta[a]	*t*-value
Group 0: Acquisitions				
Bargaining costs (BC)	-.175	-1.230	-.155	-1.110
Monitoring costs (MC)	-.399***	-2.804	-.447***	-3.081
Bonding costs (BondC)	.451***	3.776	.439***	3.649
Information costs (InfC)	-.040	-.244	-.022	-.137
Industry growth (IG)			.218**	1.935
International sales (IS)			.115	1.068
Host country experience (HE)			.005	-.047
Number of employees (NE)			-.001	-.009
Cultural differences (CD)			-.013	-.112
Model statistics:				
R^2	.427		.446	
Adjusted R^2	.394		.401	
F	12.683***		9.872***	
N	55		54	
Group 1: Greenfields				
Bargaining costs (BC)	-.240**	-2.032	-.208**	-1.768
Monitoring costs (MC)	-.092	-.910	-.108	-1.097
Bonding costs (BondC)	.140	1.612	.116	1.364
Information costs (InfC)	-.366***	-3.253	-.383***	-3.468
Industry growth (IG)			.126	1.543
International sales (IS)			.172**	2.194
Host country experience (HE)			-.002	-.027
Number of employees (NE)			-.037	-.456
Cultural differences (CD)			-.078	-.905
Model statistics:				
R^2	.352		.397	
Adjusted R^2	.333		.366	
F	18.302***		13.032***	
N	105		105	

[a] standardized coefficients
†p < .10, **p < .05, ***p < .01

Table 2: ANCOVA analysis with split sample design

Variables	β [a]	*t*-value	Significance [b]
(EM=0) × Bargaining Cost	−.165	−.901	.369
(EM=1) × Bargaining Cost	−.256	−2.022	.045
(EM=0) × Monitoring Cost	−.436	−2.256	.026
(EM=1) × Monitoring Cost	−.094	−.911	.364
(EM=0) × Bonding Cost	.432	3.383	.001
(EM=1) × Bonding Cost	.144	1.834	.069
(EM=0) × Information Cost	−.047	−.265	.791
(EM=1) × Information Cost	−.330	−2.636	.009

[a] Standardized coefficients [b] Two-tailed test
0 = acquisitions, 1 = greenfields

ENDNOTES

[i] The GLM ANCOVA analysis (the analysis of covariances) provides analysis for one dependent variable by one or more factors (categorical) and or continuous variables. The procedure is especially useful when investigating interaction or moderator effects. The factor variables (here: entry mode) divide the sample into groups.

[ii] Inspecting a reduced data set (145 of those 160 MNEs), 27.8 % of the managing directors in the greenfields were Norwegians, compared to 18.8 % among the acquired firms, which points in the same direction as the findings by Harzing (2002).