Entry Modes and Cultural Distance

A Bachelor Thesis by Robbert van der Tas

Student:	Robbert van der Tas
ANR:	231162
Pre-master:	Strategic Management
Department:	Organization & Strategy
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Supervisor:	Mr. Elsen Ho
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Management Summary

The goal of this bachelor thesis is to answer to following problem statement: *Which firm and country characteristics influence fully owned subsidiaries and contractual agreements given different cultural dimensions between host and home country?* This thesis is based on secondary data which consists of papers published in several journals

Culture is extremely hard to define, in this thesis, Hofstede's(1980) definition will be used: 'Culture is the collective programming of the mind which distinguishes the members of one human group from another… Culture, in this sense, includes systems of values; and values are among the building blocks of culture'. The cultural dimensions measure the cultural distance between a home and a host country. The dimensions that influence entry mode decision making are 'power distance' and 'uncertainty avoidance'.

The firm and country characteristics influence entry mode decision making and they are divided in 5 groups: Internal factors, product, desired more characteristics, transaction-specific factors and external factors. While entry modes can be distinguished in 3 groups of which this study only focuses on contractual agreements and fully owned subsidiaries.

The conclusion drawn from this literature review states that internal factors such as firm size and international experience determine the resource commitment of a firm. High resource commitments are needed to establish fully owned subsidiaries.
' Control' is a factor which is part of the desired mode characteristics and is influenced directly by cultural distance. A high cultural distance between the home and host country, requires a high level of control by the parent firm on their foreign activities, which results in a hierarchical entry mode.

The academic recommendations point out that future research should be devoted to industry characteristics instead of country characteristics, as industry characteristics can be influenced by cultural dimensions. The managerial recommendations emphasize that it is highly recommended for managers to understand the importance of internal factors, as these factors are key elements in entry mode decision making. Finally, several limitations were discussed such as the lack of empirical research to measure the relationship between cultural distance, firm or country characteristics and their influences on entry mode decision making.
Keywords: Entry mode, cultural distance, cultural dimensions, FDI, export modes, wholly owned subsidiaries, license/franchise agreements and contractual agreements.

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Chapter 1: Introduction

Every student who has been moving houses for the first time probably also has paid a visit to this furniture retailing giant. It's the first store that you think of when you need clean, green and value for money furniture. It is IKEA that I'm suggesting. IKEA has grown into the world's largest furniture retailer, with 237 stores in 35 countries (2007) and a workforce of some 90.000 people since its first outlet opened in Almhult in 1958. IKEA's experience in the retail market, product differentiation and cost leadership has lead to its enormous success.

The firm is known for its rapid international expansion. The IKEA internationalisation concept is based on franchising and fully owned subsidiaries(FOS). Fully owned subsidiaries can only be found in stable markets which are deemed to be identical to the home market (Europe, North America). Franchise subsidiaries are used in unknown, high risk markets because there are huge cultural differences with the home country which increases the risk of doing business. Since the similarity of the foreign market and home market is an important factor, we suggest that culture plays a major part in internationalization and therefore in the entry mode choice. I'm wondering what the effect of cultural differences is on the choice of entry mode.

1.1 Problem statement

As the problem indication suggests further research needs to be done on the subject of cultural distance between home and host country and the relationship with entry mode decision making. Therefore the following research question will be answered, in the case of IKEA and other firms in general:

Which firm and country characteristics influence fully owned subsidiaries and contractual agreements given different cultural dimensions between host and home country?

1.2 Research questions

In order to answer this question, a few areas need to be explored and researched to come to a fundamental conclusion for this problem.

Firstly research needs to be done on the subject of cultural dimensions. Which cultural dimensions can be identified and what influence do these cultural dimensions have on the choice of entry modes? Secondly, which firm and country characteristics need to be considered when a firm decides to establish a subsidiary with a contractual agreement(CA) or a fully owned subsidiary?

Thirdly, how can entry modes be grouped and what distinguishes them from another? And finally, how can these factors be managed best?

1.3 Relevance

There is a lot of information available for a subject like entry modes. Many scholars have assessed this subject and have been trying to explain a certain problem in this broad topic. I'm trying to give a clear view and provide new insights on the entry mode choice and cultural distance between countries. This paper will provide useful information for managers of global firms who are thinking of or in fact entering a foreign high risk market with a high cultural distance.

1.4 Research design and data collection

This will be literature review based thesis. By researching firm and country characteristics and cultural differences and the coherency between these factors I'll try to fulfil my research objective. To answer my research questions I'll rely on secondary sources like academic papers and books. The University database also contains research papers which can be used to answer my research question.

1.5 Structure

Chapters 2, 3 and 4 will answer research questions 1, 2 and 3. Chapter 5 contains an analysis of how to manage cultural differences that influence the entry mode choice. After these chapters the main question is discussed in chapter 6 followed by conclusions. The final chapter contains future recommendations and the limitations that apply for this thesis.

1.6 Methodology

The research is based on preliminary researches. The sources of this research consist of papers published in several journals. The disadvantage of this method of researching is that the research relies on secondary data which are the opinions of other scholars instead of facts based on empirical research. Therefore papers from high quality journals will be used to increase the reliability and credibility of this paper.

Chapter 2: Cultural distance

Culture is a concept that is difficult to define. Hofstede's (1980) definition is perhaps the best known and therefore also applied here: 'Culture is the collective programming of the mind which distinguishes the members of one human group from another… Culture, in this sense, includes systems of values; and values are among the building blocks of culture'. This chapter will provide further information on Hofstede's (1980) work and broader perspective on culture distance.

2.1 High and low context cultures

Hall (1964) introduced the concept of high and low contexts as a way of understanding different cultural orientations.

Low context cultures

Low context cultures rely on spoken and written language for meaning. Senders of messages encode their messages, expecting that the receivers will decode those words in the right way to gain a good understanding of the intended message (Hall, 1964).

High context cultures

According to Hall (1964) high context cultures use and interpret more of the elements surrounding the message to develop their understanding of the message. In high-context cultures the social importance and knowledge of the person and the social setting add extra informative and this will be perceived by the message receiver.

Particular low context cultures can be found in Northern Europe. The Swiss and German have a reputation for talking quite literally, with explicit messages and low context. Among the high context cultures, according to Hall (1964), Latin America, Japan and the Middle East can be found. In Japan for example, the word 'no' basically doesn't exist. A 'yes' pronounced in a certain way actually means 'no'.

2.2 Cultural dimensions

Geert Hofstede (1980) was one of the first researchers to illustrate different dimensions between cultures. Hofstede's research took place between 1967 and 1973 within IBM, a large multinational company with 66 subsidiaries. IBM shares a very strong corporate culture by its employees. Over 116.000 questionnaires were submitted by all categories of personnel. The questions consisted of their values and beliefs on issues related to motivation, hierarchy, leadership and well-being in the organization.

Because of this large scale survey research and analytic work, Hofstede (1980) is able to distinguish four main conceptual dimensions on which national cultures show significant differences. Namely, *individualism/collectivism, power distance, masculinity/femininity* and u*ncertainty avoidance*

2.3 Individualism and collectivism

Individualism emphasizes on the principle of your own independence and individuality. Individualism stresses the smallest unit as being that where the solution lies. Collectivism is related to traditional culture, whereas individualism is a big part of modern culture(Smith, Peterson, Leung, 1998).

According to Chatman & Barsade (1995) the individualist/collectivist distinction is a strong but difficult cultural difference. In an individualistic culture, people still belong to groups and see themselves as integrated into a larger whole. In a collective culture people still have the desire to express themselves individually and strive for personal success.

People from individualist societies are more likely to rely on individuality and rationality as motivations for cooperation, while those from collectivist societies are likely to be driven by collective rationality and social forces (Chen, Chao C., Xiao-Ping Chen and James R. Meindl, 1998). Also, conflicts occur in every society. People from collective cultures are more likely to rely on formal rules and procedures to handle disagreements, which results in, in-group harmony. While people from individualistic cultures rely on their own experience (Smith et al., 1998).

2.4 Power distance

Erramilli (1996) argues that power distance measures the distribution of power in organizations between the employer and employee. In low power distance societies employees tend to feel equal and close to each other in their daily activities. Usunier (2005) states that by delegating power, the hierarchical distance is higher. In high power distance societies employees feel different from employers. It's hard to speak to higher ranked people and the real power can usually be found in the top of the organization.

2.5 Masculinity/femininity

"A society is masculine when the dominant values favor assertiveness, earning money, showing of possessions and caring little for each other. Conversely, feminine societies favor nurturing roles, interdependence between people and caring *for* each other(who are seen as worth caring for, because they are temporarily weak)" (Usunier, 2005, p. 58).

A dimension that is called masculine and feminine because men tend to score higher on the extreme aspect and women tend to care more for others.

Usunier (2005) emphasizes that Northern European countries are typically feminine societies. In these countries the welfare system is highly developed and education is largely free. People openly admit that they will be helped with these problems. This in contradiction to the U.S. and Japan that are typical masculine countries. In these countries people admire the strong and the weak will find less support from the society (Smith et al., 1998).

2.6 Uncertainty avoidance

Hofstede (1980) points out (in Usunier, 2005) that uncertainty avoidance should not be confused with risk avoidance. Even more than reducing risk, uncertainty avoidance leads to a reduction of *ambiguity.* “Hofstede notes that risk is more specific than uncertainty and is often expressed as a probability that a specific outcome will occur, whereas uncertainty is a situation in which anything can happen” (Usunier, 2005, p. 59)

Usunier (2005) states that the uncertainty avoidance dimension measures the extent to which people in a society tend to feel threatened by undefined situations. In a high uncertainty avoidance culture, stable careers are promoted, lines are drawn and procedures are produced.

2.7 Long term orientation

Hofstede was concerned that the four dimensions might be the result of a questionnaire developed by a “western mindset”. Therefore Hofstede (1980) used a questionnaire developed by scientist from China. A fifth unique dimension was found that they labeled: Confucian Dynamism. This dimension measures the extent to which people are future-oriented (long term) rather than present oriented (short-term). Later, Hofstede (1991) renamed this dimension: “long-term orientation” (Barkema & Vermeulen, 1997).

However Yeh & Lawrence (1995) argue whether this dimension adds to something to the original four dimensions. They state this dimension has the same cultural value as individualism and should therefore not be mentioned as a separate dimension.

Proposition 1: Given these dimensions, a distinguish can be made between east and west. Western counties are known to have a low context culture and they tend to be more masculine and individualistic, where the power distance is low. Western countries favor doing business with a short term orientated view. In contrary eastern countries are known to have a high context culture which is also masculine but very group orientated. The powers distance is high and these countries favor doing business with a long term orientated view.

2.8 Cultural distance and entry modes

Cultural distance occurs when there is a distance between the home and host country in terms of culture, economic systems and business practices. The greater the distance, the greater the likeliness that a firm will consider export entry modes instead of hierarchal modes (Hofstede 1980). Makino & Neupert (2000) predict that firms from a country with 'high power distance' and 'high uncertainty avoidance' will tend to establish a fully owned subsidiary when entering a foreign market.

Erramilli (1996) supports this prediction by stating that uncertainty- avoiding cultures are populated by individuals with high anxiety levels. These cultures seek to avoid future uncertainty by avoiding less controllable entry modes (e.g. contractual agreements). "Firms based in such cultures tend to be less willing to deal with foreign partners, and more likely to control the internal environment through ownership." (Erramilli, 1996, p. 19)

Chapter 3: Firm and country characteristics

The previous chapter described which cultural dimensions influence entry modes, this chapter will provide more insight in which firm and country characteristics influence the entry mode choice.

The firm's choice of its entry mode should be increasing the firm's profit. However this is not as easy as it seems, especially when there is little knowledge available about the foreign market. Five groups of factors are believed to influence the entry mode decision.

3.1 Internal factors

Firm size

The firm size indicates the firm's resource availability. "To compete with host country firms in their own markets, firms must possess superior assets and skills that can earn economic rents that are high enough to counter the higher cost of servicing these markets. A firm's asset power is reflected by its size and multinational experience." (Agarwal & Ramaswami, 1992, p. 4)

Although every firm desires a high level of control over their international operations (Lecraw, 1984), it is more likely for especially small to medium sized enterprises(SME) to enter the foreign market through export modes instead of hierarchical modes. According to Anderson & Gatignon (1986) a high degree of control needs high recourse commitments including high overhead, which SMEs usually can't afford.

International experience

International experience refers to the extent to which the firm has been involved in international operations. Johanson and Vahlne (1977) describe in their theory that uncertainty in international markets is reduced through actual operations in foreign markets rather than through the acquisition of knowledge. They believe that experience with international operations increases the extent of resources committed to foreign markets. Erramilli (1991) emphasizes this by stating that international experience plays an important foreign entry behaviour of manufacturing and service firms. Less international experienced firms prefer foreign markets similar to the home market while more experienced firms tend towards more diversified and culture distant markets.

Proposition 2: Firm size and international experience result in greater resource commitment.

3.2 Product

Product complexity

Product complexity concerns the nature of the product. Products vary widely in their characteristics and therefore determine the selling job. Novak & Eppinger (2001) argue that the technical nature of a product (high complexity) requires before and after sale service. Intermediaries might not be able to handle such work and therefore firms will choose for a hierarchal mode (Erramilli & Rao, 1993).

Product differentiation advantage

Blomstermo, Sharma and Sallis (2006) distinguish two types of services, hard and soft services. When the production and consumption can be decoupled, we're dealing with hard services. Software services for example, can be produced on a CD or another tangible medium that makes standardization and mass production possible.

3.3 Desired mode characteristics

Risk averse

Agarwal & Ramaswami (1992) indicate that a risk-averse firm will prefer export modes or licensing instead of a hierarchal mode because this involves less financial and management commitment. However, modes of entry that entail minimal levels of resource commitment and hence minimal risks are unlikely to foster the development of international operations and may result in significant loss of opportunity (Hollensen, 2007).

Control

This has actually been mentioned in the previous heading. The degree of control that a firm desires to have depends on their entry mode choice. Anderson & Gatignon (1986) describe control (ability to influence systems, methods and decisions) as an utmost important factor of the future of the foreign enterprise. Without control, it is harder for a firm to carry out strategies, handle conflicts and coordinate actions.

Proposition 3: A firm's desire for high control will make the firm tend towards a hierarchical entry mode. On the contrary while a risk-averse firm, will shy away from commitment and therefore tend towards contractual agreements.

3.4 Transaction-specific factors

Tacit nature of know-how

When the nature of the firm-specific know-how transferred is tacit[1] it is by definition hard to articulate. This makes it difficult to set up a contractual agreement. Because this knowledge is hard to transfer it is most likely for firms to establish a fully owned subsidiary or any other type of hierarchal mode. By using hierarchal modes human capital can be utilized to structure the knowledge transfer (Martin & Salomon, 2003).

Opportunistic behaviour

The friction between buyer and seller can often be explained by opportunistic behaviour. Williamson (1985) defines (in Douma & Schreuder, 2002) it as a 'self-interest seeking with guile'. It includes methods of misleading, distortion, disguise and confusion. He states that in every transaction, every buyer of seller tries to benefit the most from the transaction. This is called opportunistic behaviour. Opportunistic behaviour can be prevented by preliminary research; however this means that there will be extra transaction costs involved (Douma & Schreuder, 2002).

3.5 External factors

Country risk/demand uncertainty

Foreign countries are usually riskier to enter than the domestic market. There are not only economic risks but also political risks (Robinson & Lundstrom, 2003). According to Johanson and Vahlne (1977) the perceived risk in the foreign market determines the resource commitment made by the firm. When the country risk is high, firms will prefer export modes with less resource commitment than hierarchal modes.

Market size and growth

When deciding which mode to use to entry a foreign market, market size and growth are very important factors. The larger the size of the country, market and growth rate, the more likely the firm will commit resources to its development and will consider establishing a wholly owned subsidiary (Agarwal & Ramaswami, 1992).

[1] Tacit: Difficult to articulate and express in words – tacit knowledge is know how that comes with experience and cannot be transferred easily. It has to with complex products and services (Hollensen, 2007).

Chapter 4: Entry modes

Entry modes can be divided in 3 groups. Namely: Export modes, Intermediate modes and Hierarchical modes(Hollensen, 2007). These are the main groupings for entry modes that are available to companies whom wish to take advantage of foreign market opportunities.

4.1 Export modes

By using export entry modes a firm's products are manufactured in the home country or a third country and are then transferred either directly or indirectly to the host country. Exporting is typically used in initial entry and slightly develops into foreign-based activities. Exporting can be done in several of ways, depending on the number and type of intermediaries available in the region (Robinson & Lundstrom, 2003).

As in the case of wholesaling, export and import agents vary considerably in the range of functions performed. Some companies provide full-service while others just pass along the goods to the customer without any type of service.

When a company has decided to use export modes, it has to decide which functions will be the responsibility of the external agents and which will be handled by the company itself. While these 'export channels' can take different forms, three types of export can be distinguished:

1. *Indirect export modes:* Another domestic company takes care of the exporting activities, often without the manufacturing firm's involvement.
2. *Direct export modes:* Direct export modes are usually agents that are localized in the foreign target market. The manufacturing firm takes care of the exporting activities and has direct contact with the intermediary in the foreign target market.
3. *Cooperative export:* This involves collaborative agreements with other firms concerning the export of the manufacturing firm's products (Darling & Seristo, 2004).

4.2 Intermediate entry modes

Intermediate entry modes are different from export entry modes as they only transfer knowledge and skills, although they may also create export opportunities. With intermediate entry modes there is no full ownership by the parent firm involved. Intermediate entry modes include a variety of contractual arrangements such as: licensing, franchising, contract manufacturing and joint ventures (Malhotra & Hinings, 2010).

4.2.1 Contractual agreements

With contractual agreements firm's can enter foreign markets with little risk. A licensee or franchisee is allowed to use the product, brand or service without having to start from scratch. A disadvantage is that the parent firm has less control over the foreign activities (Robinson & Lundstrom, 2003).

Intermediate entry modes usually establish when firms have a competitive advantage but are unable to exploit this advantage because of the lack of resources. These arrangements are often long term (Hollensen, 2007).

4.3 Hierarchical entry modes

Robinson & Lundstrom (2003) state that with hierarchical modes the firm completely owns and controls the foreign market activities. An organization that is not fully owned (100%) will here be viewed as an export or an intermediate mode.

If a firm wants greater influence and control over their marketing activities in foreign markets than export or intermediate modes, firms usually consider creating their own companies. However this involves high investment costs.

4.3.1 Establishing fully-owned subsidiaries

All hierarchical modes are based on foreign facilities (expect domestic-based sales representatives). When establishing fully-owned subsidiaries in a foreign country, the firm can decide to either acquire and existing firm or build their own plant from scratch(Greenfield investment).

Acquisition or Greenfield investment

According to Root (1987) acquisition enables rapid entry and often provides access to distribution channels. The firm can benefit from local knowledge and existing contacts with the local market and government. However the biggest risk of acquisition is the lack of integration with existing operations. Communication and coordination problems between de acquired firm and the acquirer might occur.

Hollensen (2007) states that through Greenfield investment the parent firm is able to integrate state-of-the-art technology which results in increased operational efficiency. But on the contrary it results in high investment costs and a slow entry of the new market.

Chapter 5: Analyzing the firm and country characteristics given the cultural distance

In the previous chapters the most important factors of the cultural influences and firm and country characteristics are indentified, the findings of this study will be outlined in this chapter.

5.1 Characteristics influenced by cultural distance

A cohesion between cultural distance and the firm/country characteristics and their relation to entry modes indentified. The characteristic that is most influenced by culture is *control*. When analyzing cultural distance, most scholars emphasize that as the cultural distance between home and host country increases, the firm's capability of operating effectively decreases (Gomez-Meija & Palich, 1997). According to Tihanyi, Griffith and Russel (2005) a firm could face operational difficulties as a result of a large cultural distance, in general this is caused by a lack of understanding the norms, values and institutions that are part of the social exchange across markets.

Another proposition that Tihanyi et al. (2005) suggest is that a higher cultural distance between the parent firm and the foreign target market, will make the parent firm tend towards a more hierarchical mode.

An explanation for this proposition is that greater control is necessary in a foreign market with high cultural differences. Through hierarchical modes firms are able to establish a greater degree of control on their operations, cultural values and influence potential differences that might occur.

Proposition 4: The degree of control mentioned in paragraph 3.3 largely depends on the cultural distance between home and host country. If the cultural distance is high, firms will prefer a high degree of control on their foreign activities.

However, as explained in paragraph 3.3, control requires high resource commitments which will also increase the firm's exposure to risk (Anderson & Gatignon, 1986). In this context fully owned subsidiaries can be referred to as *High-control modes* and franchising, licensing any other type of contractual agreement can be referred to as *Low-control modes* (Anderson & Gatignon, 1986, Hennart, 2009).

5.2 Greenfield investment in relation to cultural distance

Barkema & Vermeulen (1998) argue that firms with strong technological capabilities will most likely not enter a foreign market through acquisition for two reasons. First of all, an existing foreign firm has little to offer the parent firm when it comes to technological skills. Secondly, if acquiring firms have superior technological capabilities, it may be difficult or impossible to bring the capabilities from the parent firm into the acquired companies because of rooted organizational structure. Therefore it might be easier to set up a new venture that is not connected to routines and habits (Greenfield investment).

"Parent firms can send over employees to select, hire, and train workers from the local population and implement firm-specific advantages (technology and embedding rules, procedures, conventions, beliefs, knowledge, etc.) from the outset in a start-up but cannot do so in an acquisition." (Barkema & Vermeulen, 1998, p. 9-10)

From the above it can be derived that when there is a large difference between the home and host country, a Greenfield investment would be recommended, as it is difficult to transfer the parent's firm culture onto the acquired firm which has had his own rules and values for many years.

5.3 Managing cultural distance

Due to this finding it is now of crucial importance for firms to manage this cultural distance and to understand other cultures. By using Hofstede's(1980) model, cultural distance between one country can be identified from another at 5 different dimensions. To manage this cultural distance Lee (1966) suggests a four step approach to manage cultural distance which is called the 'Self-reference Criterion'.

Self-reference Criterion

To understand another culture, people automatically interpret new cultural surroundings on the basis of their existing knowledge of their own culture.

As described in paragraph 2.8 Lee (1966) used the term 'self-reference criterion' (SRC) to define our unconscious reference to our own cultural values. Lee (1966) suggests a four step approach to eliminate SRC:

1. "Define the problem or goal in term of home country culture, traits, habits and norms.
2. Define the problems or goals in terms of the foreign culture, traits, habits and norms.
3. Isolate the SRC influence in the problem and examine it carefully to see how it complicates the problem.
4. Redefine the problem without SRC influence and solve for the foreign market situation."(Lee, 1966)

Proposition 5: It is important that the culture of a foreign country is seen in their own context and not compared to the home country. It is better to see the foreign culture as different form rather than better or worse than, the home country. By viewing culture from this point, differences and similarities can be found and the reasons for differences can be explained.

Chapter 6: Discussion and conclusion

The major objective of this thesis is to examine the influence of the firm and country characteristics on entry mode decision (e.g. contractual agreements and fully owned subsidiaries) given the different cultural dimensions between home and host country. The results provide broad support for managers who are thinking of expanding their activities abroad.

The findings of this literature review imply that firms which would like to enter foreign countries through a hierarchical mode, the ability to do so largely depends on the size and international experience of the firm. As stated by Agarwal & Ramaswami (1992) and Erramilli (1991), a firm's resource commitment is reflected by its size and international experience. SMEs will therefore most likely enter the foreign market with a contractual agreement (e.g. franchise or licence).

Whether a firm chooses to enter a foreign market through contractual agreements or by establishing fully owned subsidiaries depends either on the (country) risk and/or control. Hierarchical entry modes is a type of entry mode which gives the parent firm more control over their foreign activities (Tihanyi et al., 2005), which is especially needed in cultural distant markets (Barkema & Vermeulen, 1998). However Kogut & Singh (1988) argue that, the greater the cultural distance between home and host country, the more likely a firm will not choose to enter the market through fully owned subsidiary as it is considered to be too risky.

This contradiction could cause for some confusion. In order to clarify this problem, Agarwal & Ramaswami (1992) state that it depends on the nature of the parent firm. If the firm has a risk-averse mentality it will most likely not enter a foreign market with high cultural, by establishing fully-owned subsidiaries.

From the above a conclusion can be derived, which will be presented in the following three points:

- The greater the firm size and international experience, the greater resource commitment the firm is able to make abroad, which most likely results in establishing a fully owned subsidiary.
- The greater the degree of control that a parent firm desires, the more likely the firm will tend towards a fully owned subsidiary.
- Being risk-averse impedes a firm from establishing a fully owned subsidiary and will therefore desire less amount of control, which will result in establishing a contractual agreement.

Besides firm and country characteristics, cultural dimensions seem to provide firms originating from certain nations with cultural characteristics that can determine which entry mode the firm will use. Firms from countries with high power distance and high uncertainty avoidance will favour establishing fully owned subsidiaries. Power distance increases the need for control, while high uncertainty avoidance occurs in cultures where individuals live with high-anxiety levels. These cultures seek to avoid less controllable entry modes (Makino & Neupert, 2000, Erramilli, 1996).

No evidence for the direct influence of masculinity, individualism and long term orientation on the entry mode decision has been found. This results in the following conclusion:

- The higher the power distance and uncertainty avoidance, the more likely a firm will establish a fully owned subsidiary.
- When a firm decides to establish a fully owned subsidiary and there is a high cultural distance, a Greenfield investment would be recommended, as it is difficult to transfer the parent's firm culture onto the acquired firm which has had his own rules and values for many years

With the firm/country characteristics and cultural dimensions described, a connection has been found between these two factors that influence the entry mode decision:

- 'Control' is one characteristic that is directly influenced by cultural distance. A high cultural distance between the home and host country, requires a high level of control by the parent firm on their foreign activities. As Gomez-Meija & Palich (1997) earlier argued, a firm's ability to operate affectively diminishes when the cultural distance is high.

Chapter 7: Recommendations and Limitations

In this paragraph, there is a distinction made between managerial recommendations and academic recommendations. The academic recommendations will concentrate on further research while the managerial recommendations suggest implications. This chapters ends with various limitations that apply for this thesis.

7.1 Academic recommendations

The research presented here provides a general view on how this information can be used to guide entry mode decision making in cultural distant markets. A critical next step for researchers is to begin testing this data empirically in different countries. Furthermore, additional research is needed to gain better insight in the development the fundamental differences in culture relevant to entry mode decisions.

Moreover, future research could and should concentrate on different industry characteristics instead of country characteristics as to some extent there could be relationship with cultural distance (e.g. high-technology industries). Another opportunity for researchers involves more in-depth research on transaction costs and its relation to entry mode decision making.

7.2 Managerial recommendations

Some degree of caution is warranted here for managers. When choosing an entry mode it's important to emphasize the learning curve that is required in understanding new markets.
It is risky to enter new markets without having any experience in doing so. This thesis is not designed to actually make the decision of entry modes, but to assist the management in doing so.

Furthermore the weight of each firm and country characteristic will vary from industry to industry. For example 'country risk' might be more important to a government contractor than for a shoe shop. Also, the corporate culture of two firms will be difficult to transfer when there are a lot of people involved as opposed to an arrangement in which there are only a few people involved.

In addition to this, not all firm and country characteristics or cultural dimensions are related to having an influence on the entry mode decision. They should nonetheless be taken into account when deciding which mode of entry to use.
On a final note, it is important to emphasize that most research regarding entry mode decision making is focused on external factors but, it is highly recommended for managers to understand the importance of internal factors, as these factors are key elements in entry mode decision making.

7.3 Limitations

The results and implications drawn from this research should be viewed in light of the restraints that were imposed for this thesis. Time for instance, was scarce and therefore, it limited the options for research. This thesis relies on secondary data which is known to be 'less' perfect than an empirical research.

Given these limitations, it was not possible to measure the relationship between cultural distance, firm or country characteristics and their influences on entry mode decision making. Additionally, it is important to note that this research employs a relatively narrow definition of cultural distance. Whereas empirical studies are able to examine differences in cultural values, many other important dimensions can be considered for the development of future cultural distance measures (Tihanyi et al., 2005).

Furthermore, the different types of export modes and intermediate modes have not been researched. This due to the lack of time. There is however a possibility that either the cultural dimensions or firm and country characteristics could influence the different types of export modes(e.g. piggyback, agent etc.) and/ or intermediate modes. Also, all references that were used in this report are specific to given dates and could therefore not be generalizable.

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