Cultural differences and choice of mode of entry: A qualitative comparative analysis

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Abstract
This study explores the influence of cultural dimensions on the choice of entry mode in foreign direct investment processes. It focuses on the impact of differences between the home and the target along four cultural dimensions: Power Distance, Uncertainty Avoidance, Individualism / Collectivism and Masculinity / Femininity. The analysis applies a fuzzy set Qualitative Comparative Analysis on a dataset of Spanish investments located in the European Union (EU), OECD (non-EU) countries and Latin America. Results allow the identification of alternative configurative models that explain the choice of entry mode, providing support to the contingent role of cultural differences.
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1. Introduction

There is a vast body of literature dealing with the role of cultural distance (CD) on entry mode and ownership structure in foreign direct investment (FDI) processes. Nevertheless, it is not possible to reach definitive conclusions. Just on the contrary, opposite theoretical proposals and contradictory empirical results coexist giving rise to the so called cultural distance paradox (Brouthers & Brouthers, 2001; p. 177).

Some recent papers have tried to shed light on this paradox by using new measures of CD, enhancing the CD concept, or analyzing the role of third variables as moderators of the CD’s impact. However, two main issues remain almost unexplored in existing literature. First, it is important to analyze the contingent effect of CD taking into account the FDI’s particular context. In this sense, qualitative studies arise as an optimum approach to analyzing contextual issues when studying internationalization decisions (Doz, 2011). Second, it is necessary to analyze the impact of the different dimensions traditionally gathered within the CD concept. Although using an index which integrates different dimensions within a unique variable facilitates CD’s measurement and operation, it implies losing information and assuming premises which are not always true.

The purpose of this paper is twofold: first, it explores the role that differences relative to individual culture dimensions play in ownership structure decisions. Second, it contributes empirical evidence from a qualitative approach; specifically, it performs a fuzzy set Qualitative Comparative Analysis.

The paper’s structure is as follows: section two shows a review of the literature dealing with the role of CD on entry mode decisions. Section three reflects on the potential impact of individual national culture dimensions on these decisions. Section four presents the methodology and data features, as well as the main findings. Finally, section five offers conclusions, limitations, and suggestions for future research.

2. Cultural distance and entry mode: literature review

Research dealing with the role of CD in the choice of entry mode —that is, the choice between wholly owned subsidiary (WOS) and joint venture (JV)— or in ownership structure decisions (that is, equity distribution among different partners) is particularly extensive, but not conclusive —see a recent literature review by Dow & Larimo (2009), as well as the meta-analysis by Tihanyi, Griffith & Rusell (2005). Some studies propose and empirically test that high levels of cultural distance between the home and the target lead to the use of WOSs as entry modes in order to avoid the need of sharing the investment with partners whose
cultural values and behaviors the foreign investor does not know and/or understand. Just on the contrary, a second group of studies show that the higher the CD, the higher the tendency to share the investment with a local partner who provides specific knowledge relative to the host market allowing the foreign investor to bridge the cultural gap between both nations.

A quite recent body of literature attempts to identify which factors underlie this contradiction. Some papers focus on methodological issues by using CD measurements different from the traditional Hofstede model or proposing different empirical relationships between the CD and the entry mode—for instance, Kim & Gray (2009) and Morschett, Schramm-Klein, & Swoboda (2008) measure the cultural distance based on the Schwartz or GLOBE projects, while Wang & Schaan (2008) find an inverted U-shape relationship between CD and the choice of JVs. A second group of papers enhances the analysis by considering additional factors related to the distance between countries such as, for instance, language, religion, and degree of economic development—among others, the papers by Davis, Desai & Francis (2000), Delios & Beamish (1999), Demirbag, Tatoglu & Glaister (2007, 2009), Dow & Kuranaratna (2006), Lu (2002), Meyer (2001), and Tatoglu, Glaister & Erdal (2003).

The most recent stream of literature focuses on the analysis of moderators and interaction effects; that is, on the existence of third variables which may influence the role played by the CD in the choice of entry mode. Among these variables are the target’s country risk (Brouthers & Brouthers, 2001; López-Duarte & Vidal-Suárez, 2012), the host country’s governance quality (Chang, Kao, Kuo & Chiu, 2012), the foreign investor’s experience (Cho & Padmanabhan, 2005), and the subsidiary’s age (Wilkinson, Peng, Brouthers & Beamish 2008). In a similar way Schwens, Eiche & Kabst (2011) find that the CD moderates the role played by the foreign investor’s international experience and proprietary know-how in the choice of entry mode.

While some of these studies contribute to explain the initial contradiction, others just feed the paradox showing results which are contingent to the CD measurement or to the country used as reference for measuring distances.

Two main issues remain almost unexplored in existing literature. The first is a methodological issue which relates to the need for qualitative studies which go beyond particular case studies, insofar as most empirical research in the field relies on quantitative methods or case studies—we address this point in section 4. The second concern relates to the need of studying the particular impact of individual national cultural dimensions on entry mode choice. Most empirical studies measure the CD between the home and the target by integrating cultural dimensions within a composite index. Using an index facilitates the measurement and operation of CD, but it implies losing relevant information and accepting some assumptions which are not necessarily true; among them, the assumption of
equivalence (Shenkar, 2001; Shenkar & Zeira, 1992). In fact, different studies—among them, those by Hofstede (1989, 2001)—point to some cultural gaps as more relevant than others as conditioners of business decisions. Nevertheless, very few papers analyze the role of individual dimensions in the choice of entry mode. Additionally, most of these studies deal with the role played by the home country’s cultural dimensions and focus on just some them—see, for instance, Erramilli (1996), Richards & Yang (2007), Shane (1992, 1994) and Tse, Pan & Au (1997).

The studies by Barkema & Vermeulen (1997) and Barkema, Shenkar, Vermeulen & Bell (1997) are pioneer in analyzing the impact of distances between the home and the target among individual cultural dimensions on the choice of joint ventures as entry modes. Both studies point to Uncertainty Avoidance (UA) as the most influential dimension. Among the few recent papers which focus on this issue are those by Brouthers & Brouthers (2001), López-Duarte & Vidal-Suárez (2010) and Wilkinson et al. (2008). The first of these studies shows a positive relationship between distance and the choice of joint ventures for all cultural dimensions analyzed, while the remaining two analyze the role of the target’s country risk and language differences as moderators of the CD’s role. It is remarkable, however, that none of these studies analyzes from a theoretic point of view the potential impact of distances relative to individual dimensions; they just propose hypotheses relative to the influence of cultural distance and test them considering the individual dimensions.

3. Individual dimensions of national culture and ownership structure

This section seeks to explore the potential impact of distances along national cultural dimensions on the choice of entry mode and ownership structure. The analysis is based on Hofstede’s framework focusing on the four cultural dimensions initially identified: Power Distance (PD), Uncertainty Avoidance (UA), Individualism/Collectivism (IC) and Masculinity/Femininity (MF). Due to both theoretical merit and empirical support (see Woodside, Hsu & Marshall, 2011), Hofstede’s framework is the cultural approach most widely used within the international business field and within the entry mode literature (see Tihanyi et al. 2005, Dow & Larimo, 2009).

3.1 Power distance

Power distance refers to the extent to which the members of institutions and organizations within a country expect and accept that power is distributed unequally (Hofstede, Hofstede & Minkov 2010, p. 61). Therefore, it refers to how a society handles inequalities and provides information about dependence relationships in a country. In short, it represents the degree of formal hierarchy in a society.

A high PD score implies that society not only accepts, but even prefers, unequal power distribution; in other words, it values a hierarchy of power. Stratification, central power and
hierarchical control arise as main issues within this society, so that people of different status are treated unequally. Just on the contrary, in low PD societies there is less hierarchy and greater decentralization. In these societies people believe that power should be shared or at least be attainable by all.

Within a firm or organization, PD refers to actual and expected power distribution between bosses/managers and employees/subordinates. In large PD countries managers enjoy a much higher level of power than subordinates, so that the latter lack autonomy to make decisions. Bosses instruct employees about what to do and how to do it and supervise and tightly control employees' activities. Organizations show tall pyramid structures which have a large proportion of supervisory personnel; therefore, all relationships within the firm rely on hierarchy and formal authority. There is a preference for centralized authority, autocratic leadership and extensive use of control and supervision mechanisms. Managers' discretion to make decisions is high: they do not consult with subordinates and they are not questioned by them. In turn, they totally assume the responsibility for their decisions.

In low PD contexts, subordinates show a lower need for dependency and they do not easily accept asymmetric power relationships. Organizations tend to have less hierarchy and greater decentralization. Knowledge and information flow apart from hierarchical structures and communication between managers and subordinates is not based on formal authority. Managers' discretion is lower; they are more likely to make decisions after consulting their subordinates, and they work on a shared responsibility basis.

The PD cultural dimension reflects many characteristics of trust (Shane; 1992, 1994), so that high PD scores correlate with low degrees of interpersonal trust. In high-trust societies, organizational controls are usually based on shared values and a sense of duty to others (Ouchi, 1980); therefore, control systems within organizations strongly rely on trusting subordinates. Just on the contrary, in societies which show less interpersonal trust, individuals must be monitored by a hierarchy. Consequently, organizations rely on hierarchical controls to monitor employees' behavior.

When carrying out foreign investment projects, decision makers coming from high PD countries tend to seek control and are not willing to share power. Therefore, they prefer entry modes which imply full/majority control and ownership. On the contrary, managers coming from low PD countries are more open-minded regarding whether to control or have a dominant position in the venture. In summary, there seems to be a consensus about how the home country's degree of PD conditions the choice of entry mode.

Nevertheless, how differences between the home and the target in the PD dimension influence the entry mode choice remains as an unexplored issue. Would the distance in this dimension always condition in the same way the entry mode choice? If a firm coming from a high PD country chooses (as expected) a WOS as entry mode in a low PD target, how
should it handle the local employees’ need for a framework characterized by negotiation, consensus and shared responsibilities? Is it possible to manage this culture clash without a local partner? Is it easier to negotiate with a local partner than to handle local human resources? Just on the contrary, if the distance between the home and the target is small (therefore avoiding a culture clash), does it derive in the same implications for entry mode choice when both countries score high as when both of them score low in the PD dimension? Is it possible to manage the crash between two partners which, coming from high PD countries, equally achieve for high control and ownership over the venture?

3.2 Uncertainty avoidance

Uncertainty avoidance is the extent to which the members of a culture feel threatened by uncertain or unknown situations (Hofstede et al., 2010, p.191). The UA dimension determines the cultural need for structure in order to cope with situations whose outcomes are not easy to predict. The degree of UA conditions how people perceive opportunities and threats in their environment, as well as their reaction to both (Schenider & De Meyer, 1991). High UA implies needs concerning security. In high UA societies, people perceive new situations as dangerous and are more risk adverse. They show a low degree of tolerance to ambiguity and seek to reduce uncertainty and limit risk by imposing rules and systems to bring about order and coherence; in other words, they have a need for structure. Planning arises as a tool to anticipate and control future contingencies. On the contrary, individuals in low UA societies are willing to take risks, perceive new situations as opportunities, and need fewer rules and norms.

Firms in high UA countries are highly concerned with predicting outcomes and establishing structures and norms. Within these organizations there is an emphasis on written rules and organizational uniformity. Managers are more likely to interpret strategic decisions as a threat and tend to restrict information scanning and sharing within the organization as a consequence of that interpretation. They are reluctant to carry out decisions and investment projects whose outcomes are uncertain and tend to make decisions consistent with the past and the industry standards. These managers prefer incremental rather than radical changes. In a similar way, employees show a preference for standardized processes and formalized routines and mechanisms which reduce their uncertainty by offering them guidance on work matters. They feel uncomfortable when they do not have a formalized system to rely on.

In low UA societies, managers interpret environmental changes as an opportunity and are willing to take risks. They easily delegate, are flexible, and show tolerance to different opinions and non-expected behaviors. Therefore, organizations are not very structured and there are not rigid rules. Employees feel more attracted to flexible ad hoc structures which
leave room for improvisation and negotiation, they do not feel comfortable working within rigid systems.

When dealing with FDIs and entry mode choice, literature accommodates two opposite proposals relative to the role played by UA. On the one hand, it may be expected that firms coming from high UA countries prefer to invest through shared entry modes in order to share risks with other partners. On the other, these firms may be more willing to invest alone in other to avoid the uncertainty derived from control share and negotiation processes whose outcomes are not always easy to predict.

On the contrary, there seems to be an agreement dealing with the role of UA differences between the home and the target on entry mode choice: the greater the distance, the lower the tendency to use shared entry modes. As already stated in Hofstede (1989), differences in UA are particularly difficult to cope with in international cooperation processes, as they imply differences in how partners perceive and respond to events in the environment. These, in turn, may breed in disagreements between partners and have a detrimental impact on cooperation.

3.3 Individualism / Collectivism

Individualism refers to people’s behavior towards the group. Individualism pertains to societies in which the ties between individuals are loose—everyone is expected to look after him or herself. Collectivism as its opposite pertains to societies in which people are integrated into strong, cohesive in-groups, which throughout people’s lifetime continue to protect them in exchange for unquestioned loyalty (Hofstede et al., 2010, p 92).

A high value in the individualism dimension implies that individual objectives and personal autonomy are more highly valued than socialization or commitment to collective activities. People believe that the self is the basic unit of survival, they give strong priority to personal goals, and value independence and self-sufficiency. Individuals give strong priority to their personal interests, tend to exclusively look after themselves, and ignore group interests (mainly if they conflict with their personal desires).

On the contrary, in high collectivist societies individuals need to belong to an in-group, they show a strong loyalty to it and develop tight social frameworks. People emphasize the importance of cooperation and expect the in-group to take care of the welfare of the group members. In turn, people look out for the well-being of the group to which they belong, even if it implies desegregating personal desires. Demands and interests of groups take precedence over the desires and needs of individuals.

Within the organizational context, individualistic societies encourage managers to show strong personalities, behave as individual leaders, show individual initiative, and carry out unilateral decision-making processes (Crossland & Hambrick, 2011). Therefore, managers
enjoy a high discretion level, they limit group communication, and restrict representation of different groups/departments in decision-making processes (Dimitratos, Petrou, Plakoyiannaki & Johnson, 2011). Employees pursue their own needs and behave according to their own interests. Consequently, work must be organized aligning employee’s and firm’s interests. The relationship between employer and employee is just a business one; therefore, it may finish as soon as one of them finds it more profitable to enter in a different relationship.

Within collectivistic societies managers enjoy a lower discretion level; they are expected to work on the basis of negotiation, consensus and compromise. Final decisions are based on consultative processes; therefore, communication and collaboration between employees and departments arise as key tools within these processes. Organizations’ management relies on shared values and goals, networks and team-working (Griffith, Myers & Harvey, 2006). Both managers and employees are willing to develop cooperative relationships. Employees behave according to their in-group’s interests; consequently, the firm does not just hire a person, but an individual who belongs to an in-group. It becomes essential that the hiring process takes into account the group. Within these societies, management implies management of groups rather than management of individuals. Actually, the workplace itself may arise as an in-group and the relationship between employer and employee is not just an economic one, but it implies a protection-versus-loyalty trade off (Hofstede et al., 2010).

Literature points to IC as the cultural dimension most often associated with cooperative behavior (Wagner, 1995). Therefore, it is expected that firms coming from high individualistic societies prefer WOSs rather that JVs as entry mode, in order to avoid sharing the venture’s control and ownership.

Differences along this cultural dimension may arise as a problematic issue when managing human resources. Therefore, in long distance contexts firms may prefer investing through a JV rather than through a WOS, so that the local partner is in charge of the human resource management (Barkema & Vermeulen, 1997). However, existing literature has not dealt with the actual potential for cooperation when both partners come from societies which strongly differ in this dimension. A reflection similar to that developed when analyzing PD arises: on the one hand, differences in the IC dimension may derive in a culture clash when developing cooperative projects. On the other, similarity is far from being a guarantee of success, particularly in the case of both firms coming from high individualistic countries. In this case, both firms’ preference for control and individual decision-making processes may clearly challenge the most basic issues related to cooperation (stating goals by consensus, achieving agreements, sharing decision processes, etc.).

3.4. Masculinity/femininity
Masculinity pertains to societies in which emotional gender roles are clearly distinct; femininity pertains to societies in which emotional gender roles overlap (Hofstede et al., 2010, p. 140). In a masculine society, there exists a stress on values traditionally associated with the masculine role (e.g., competition, success, wealth, ambition, and performance goal orientation), whereas in a feminine society stress falls mainly on values traditionally associated with the feminine role (e.g. relationships, life skills, quality of life, and social performance).

When dealing with work and organizations, it is not only that the MF dimension influences both managers and employees' behaviors, but it also conditions the place that work occupies in a person’s life: while on masculine societies the idea of living in order to work is prevalent, feminine societies emphasize the working in order to live belief. Individuals in masculine societies see work as a challenge which should provide them opportunities for recognition and advancement. Just on the contrary, individuals within feminine societies perceive their work as a source of security and stability that should provide them opportunities for mutual help and social contacts.

In masculine societies the task prevails over the person; therefore, concern for work is much more important than concern for people. There exists a stress on results achievement and reward systems clearly based on individuals’ performance (equity based systems). Working relations are based on competition and conflicts tend to be handled by fighting (fights between managers and employees, among colleagues, etc.). On the other pole, feminine societies stress personal relationships and the development of cooperation networks. Reward systems are designed according to people’s needs (equality based systems) and compromise and negotiation arise as fundamental tools for conflict solving, so that fights are explicitly avoided.

In a context of a shared project, differences in this dimension may be an asset rather than a problem (Hofstede, 1989), insofar as both, concern for people and concern for performance, are equally necessary for a firm’s success. However, the optimal balance between them clearly varies depending on the society’s MF orientation. As it was the case for the IC, the MF cultural dimension seems to be particularly relevant for human resource management.

Existing literature seems to agree on the idea of joint ventures as an optimal entry mode when investing in high MF distant countries, allowing the local partner to take charge of human resources (Barkema & Vermeulen, 1997). However, existing literature has not analyzed the extent to which differences in this dimension may condition the potential development of a cooperative agreement or the achievement of compatible/agreed objectives. In this way, differences in the MF orientation may derive in differences regarding each partner’s main objectives relative to the project (for instance, relative to the role that the
investment should play in the host society). Additionally, the way in which differences in MF condition the handling of conflicts may derive in a challenge to JV’s formation and survival.

4. Empirical analysis

4.1 Methodology

This paper seeks to provide empirical evidence limited to particular contexts on an issue which remains open to debate: the impact of cultural distance on entry mode choice. To perform the empirical analysis we have followed a qualitative approach. Although qualitative research has been scantly used within the international business field, it can make substantial contributions to this area (Eisenhart, 1989; Yin, 1994). Uncovering practical and theoretical paradoxes and clarifying controversial results are among these potential contributions (Doz, 2011).

The particular technique used in this study is fuzzy set Qualitative Comparative Analysis (fsQCA), which is a development of traditional Qualitative Comparative Analysis. fsQCA has been very scarcely used in international business studies—to the best of our knowledge, the study by Crilly (2011) analyzing the stakeholder orientation in multinationals enterprises is one of the very few papers in the field using this methodological approach.

QCA is a technique designed to identify causal inferences based on a limited number of cases. Therefore, it allows working with small and intermediate N databases (between 10 and 50), being its main advantage over traditional case studies that it allows working with more than a handful of cases (Rihoux, 2006). It arises as a middle way between case-oriented and quantitative approaches—see Ragin (1987), DeMeur & Rihoux (2009), and Rihoux (2006) for an extensive review. Based on the idea of multiple conjunctural causation (MCC), this methodology allows identifying common casual relationships through the systematic matching and contrasting of cases. Premises underlying MCC may be summarized as follows: it is a combination of conditions (variables) that produces the final result, different combinations may derive in the same final result, and depending on the context, a given condition may have a different impact on the final result or outcome (Rihoux, 2006; Berg-Schlosser, De Meur, Rihoux & Ragin, 2009).

fsQCA constitutes a development of the traditional QCA, which uses fuzzy sets (FSs) instead of dichotomous variables. FSs are variables defined in terms of membership in a particular set. They scale degree of membership in a particular set in the interval from 0.0 to 1.0—where 0.0 indicates full exclusion from the set and 1.0 full inclusion. Scaling the membership in a particular set allows distinguishing between relevant and irrelevant variation. In other words, variation that is irrelevant to the final outcome is truncated by establishing the thresholds of full and non-full membership to the set. As pointed by Ragin (2009), fuzzy sets are simultaneously quantitative and qualitative: full membership and full
non membership are qualitative states, while varying degrees of membership are quantitative measurements ranging from more out (closer to value 0) to more in (closer to value 1).

Calibration of set membership is the first step in order to perform a fsQCA. It allows classifying cases in different meaningful groups. Once variables have been calibrated, the so-called truth table must be constructed. This is a table that lists all possible combinations of causal conditions deriving in the intended outcome—in our particular case, combinations of causal conditions which derive in carrying out the FDI through a full entry mode. Combinations which are not associated with any case in the data set are removed; that is, a threshold of at least one observation in the dataset is set. Then, a consistency threshold must be specified. It assesses the degree to which a combination of casual conditions is consistently associated with the intended outcome (Ragin. 2006) —the consistency threshold in this study is 0.75. The latest step implies applying an algorithm to simplify causal combinations in order to achieve a final solution gathering different paths or combinations of casual variables.

The fsQCA has been performed using the fsQCA 2.0 software program (Ragin, 2008).

4.2. Database

The database collects foreign direct investments carried out by Spanish companies that share the following features:

- Time period: Investments that were carried out within the 15 years following Spanish FDI liberalization (it took place in 1988).
- Investing firms: Foreign investors are listed Spanish companies whose shares are traded in the Madrid Stock Exchange.
- Investment projects: Only greenfield investments have been included in the database; that is, investment projects which imply creating a new firm from scratch in the host market.
- Industry: A wide range of industrial and service firms have been considered. However, projects in which the foreign investor was not free to choose and/or negotiate the ownership structure of the venture were excluded (this is usually the case within some regulated industries).
- Localization: FDIs located in the European Union (EU), OECD (non-EU) and Latin American (LA) countries.

Such a selection of FDIs guarantees that cases share a sufficient number of features and that some contextual factors are comparable in all cases within the sample or a particular subsample (Rihoux, 2003). Our final sample gathers a total amount of 54 FDIs grouped in three different subsamples: the EU subsample (31 FDIs), the OECD one (11 FDIs), and the
LA subsample (12 FDIs). The three of them show an optimal size to perform a fsQCA.

4.3. Dependent, independent, and control variables

As stated before, performing a fsQCA requires calibrating both dependent and independent variables (although some of the latter may be dichotomous ones). In order to carry out calibration processes we base on 4-level scales (Ragin, 2006). In these scales the two extreme values (1 and 0) indicate full membership and full non membership, while the two intermediate values (0.67 and 0.33) indicate intermediate levels of membership (higher and lower, respectively).

Based on this scale, our dependent variable is calibrated in the following way. Full membership to the set (1): FDIs in which the foreign investor keeps at least 95% of the venture’s equity. Partial membership in the set (0.67): the foreign investor keeps an equity stake higher that 50%, but lower than 95%. Partial membership (0.33): the foreign investor’s equity stake equals 50%. Full exclusion (0): this stake is lower than 50%.

Independent variables are the distances between Spain and each host country (absolute terms) in the four national cultural dimensions identified and measured by Hofstede (1980, 2001) and Hofstede et al. (2010). Distances in each individual dimension are calibrated in a 4-level scale as follows: Full membership in the set of countries distant to Spain in a particular dimension (1): the value (absolute terms) of the distance between Spain and the host country is higher than 20% of the range of variation of that cultural dimension. Partial membership in the set (0.67): deviation from Spain is 10-20% of the cultural dimension’s fluctuation range. Partial membership in the set (0.33): such a deviation is 5-10% of the fluctuation range. Full exclusion (0): distance from Spain falls lower than 5% of that range. In order to test the robustness of our results, we have performed the analysis using three additional sets of thresholds for calibrating set membership (25, 15, and 10%; 25, 10, and 5%; 30, 20, and 10%).

Table 1 shows a breakdown of host countries, each country’s value in each cultural dimension, Spain’s value in these dimensions, and the fluctuation range in each particular dimension. It can be said that Spain shows a moderate value in three dimensions (it is within the 2nd and 3rd quartiles), but quite an extreme value in the UA dimension (it is in the 1st quartile of the scale for this dimension).

Table 1 here.

Some control variables are included in our analysis in order to control not only their potential impact on entry mode choice, but their impact on the role played by cultural dimensions on that choice. These variables are the investing firm’s international and host country experience (both of them are dichotomous variables labeled IEX and CEX), the linguistic distance (LD) between the home and host countries, the distance between both of
them relative to economic development, and the host country’s degree of country risk.

LD is measured through two different variables according to the particular characteristics of different subsamples: in the UE and OECD countries subsamples, it is measured using the scale by Dow & Kuranaratna (2006). Within the Latin America subsample it is measured through a simple dummy variable which collects Brazil’s effect (Spanish is an official language in all host countries within this subsample except for Brazil). Hosts’ country risk is measured through Euromoney’s risk rankings. Finally, differences relative to degree of economic development were measured by using the World Bank’s clusters of economic development. These initial measurements are calibrated in 4 level fuzzy sets (except for dichotomous variables) through a process similar to that followed in cultural distance variables.

4.4. Results and discussion

In a first stage, a fsQCA was performed on each subsample including all independent and control variables. Nevertheless, variables related to economic development differences and host country risk were removed in a second stage, as they arose as false necessary conditions within all subsamples. In the particular case of EU and OECD subsamples, all countries are gathered within the categories of highest economic development and lowest country risk; therefore these variables showed almost no variation within these subsamples. Exactly the opposite was noticed within the Latin America subsample (lower levels of economic development and higher degrees of country risk). In the particular case of the OECD subsample, the investing firm’s host country experience also arose as a false necessary condition and was, therefore, removed from the analysis.

Table 2 shows the identified configurations of causal conditions that predict a full or majority entry mode. It reports configurations relative to the intermediate solution provided by the analysis for each particular subsample. Therefore, it shows three solutions (one regarding each subsample), each of them integrating different causal configurations. Two measurements of fit are reported — coverage and consistency— for each particular configuration within a solution and for each solution as a whole. Coverage measures how much of the outcome is covered or explained by a particular configuration/solution. Raw coverage measures the proportion of memberships in the outcome explained by each causal configuration, while unique coverage measures the proportion of memberships in the outcome explained solely by a particular configuration (not covered by any other configuration within the solution). Consistency measures the degree to which membership in the configuration/solution is a subset of the outcome —see Ragin (2008) for a detailed explanation relative to both fit measures. Solution coverage rates are between 70.3%
OECD subsample and 80.2% (Latin America), while consistency rates vary between 88.8% (EU) and 95.3% (OECD).

Table 2 here.

欧盟 subsample

Differences in UA, IC, and MF play a main role on the choice of mode of entry, as these three variables are included in all causal configurations which compose the EU solution (they keep a positive sign in all of them). Differences in PD appear in some causal configurations, but not always with the same sign giving support to the contingent role of this variable: both the presence and the absence of differences in this cultural dimension may lead to full entry modes depending upon the particular context in which the investment is developed. In particular, the two causal configurations which show the highest coverage rate (32 and 27%, respectively) imply combining the presence of differences in the four cultural dimensions with the absence of linguistic distance and different kinds of experience. A third one (21% coverage) combines differences in UA, IC and MC with the absence of linguistic distance and the presence of both kinds of experience as causal configuration for full ownership. It seems that neither the international nor the host country experience moderates in a significant way the role played by cultural distance: the causal configuration gathering distance in the 4 cultural dimensions and lack of both kinds of experiences show a 18% coverage rate, while the one combining these distances with both kinds of experience reaches only 19%.

particularly interesting is the relationship between the PD and LD variables: the absence of LD arises as a key variable in configurations in which PD is not included or is included with a positive sign, while, just on the contrary, the DL variable shows a positive sign in the only configurations in which PD shows a negative one. There seems to exist some kind of substitution effect between both of them.

OECD subsample

The solution relative to this subsample gathers 3 different causal configurations. This solution, taken as a whole, provides high support to the contingent role of cultural dimensions, as three of them appear with a different sign depending upon their combination with third variables. Once again, linguistic distance seems to play a key role, as it arises as a variable (the only one) common to all configurations. Therefore, a high linguistic distance combined with different cultural dimensions and/or levels of experience implies preference for full ownership. It is important to notice that although LD does not emerge as a false necessary condition within this subsample, it actually works as a dummy or dichotomous variable which measures if English is an official language in the host country.

The causal configuration that shows the highest coverage rate (coverage rate 37%) implies combining high LD (host country in which English is not an official language) with
high distance in 3 cultural dimensions (IC, UA, and PD) and international experience accrued by the foreign investor. Accrued international experience is not so relevant when distance in IC in not present, even if distance in MC increases (coverage rate 20%).

**Latin America subsample**

The solution relative to this subsample gathers 4 different causal configurations which show an eclectic combination of cultural dimensions, therefore providing very high support to their contingent role in the choice of entry mode. Table 2 shows that there is a cultural variable common to all these configurations: the absence of UA. It has to be pointed out that UA shows a small degree of variation within this subsample (see Table 1), although it does not emerge as a false necessary condition. Therefore, results relative to his variable must be cautiously interpreted. Additionally, it is important to remember that the DL variable gathers the *Brazilian effect* within this subsample (higher distance from Spain relative to language and degree of economic development). There is a causal configuration that shows a particularly high coverage rate (total coverage rate: 60%, unique coverage rate: 53%) which implies choosing full ownership in a context of high distance in all cultural dimensions except for UA when the foreign investor has international experience (FDIs not located in Brazil). In the particular case of FDIs located in Spanish-speaking countries (absence of LD), differences in the MF dimension seem to play a relevant role, insofar as this variable is present (and always with a positive sign) in all causal configurations. The remaining two causal configurations show the same coverage rate (13%) and differ exclusively in the international experience accrued by the foreign investor. Both configurations point to a preference for full ownership in a context of high distance in MF within Spanish-speaking countries, even when there is absence of distance in the remaining cultural dimensions and irrespectively of the foreign investor’s international experience.

**5. Conclusions**

This study explores the role of cultural differences between the home and the target in the choice of entry mode in FDI processes. Based on Hofstede’s model of national cultural dimensions, it focuses on the potential impact of differences in four individual cultural dimensions: Power Distance, Uncertainty Avoidance, Individualism/Collectivism and Masculinity/Femininity. The empirical approach is the fuzzy set Qualitative Comparative Analysis which allows taking into account the potential moderating role of third variables — for instance, the international and host country experience accrued by the foreign investor, language or economic differences. The fsQCA is run over three different subsamples gathering FDIs located in the European Union, OECD (but nom EU) countries and Latin America; therefore, each subsample colletes FDIs which share some basic contextual factors (for instance, host country risk or degree of economic development).
The study provides conclusive results relative to the contingent role of cultural differences, so that the actual impact of differences in a particular cultural dimension clearly depends upon the particular context in which the FDI is carried out. Therefore, causal configurations deriving in full or majority entry modes are different within each subsample. Additionally, results show that both the presence and the absence of differences in a particular cultural dimension may derive in the same final outcome depending on the presence/absence of third variables, among them, the remaining cultural dimensions.

Within the EU subsample, causal configurations showing the highest coverage rates point to a preference for full entry modes in high cultural distant contexts (high distance in the four cultural dimensions) combined with low linguistic distance (neither the international nor the host country experience seems to play a determinant role within this subsample). The absence of linguistic distance also arises as a key factor determining full ownership within the Latin America subsample. Language proximity, together with the international experience accrued by the foreign investor, seems to allow investing firms to handle differences in cultural dimensions without the presence of a local partner. Both international experience and linguistic differences also play a relevant role within the OECD countries subsample.

Some particular features of our sample may somehow condition our results; in particular, OECD and Latin America subsamples gather a fair small number of FDIs. Although the size of both subsamples is good for performing a fsQCA, some relevant variables (like, for instance, host country experience in OECD countries) do not vary within them, and thus emerge as false necessary conditions. Therefore, it would be interesting to perform new analyses over larger subsamples in order to test the actual impact of these variables.

6. Bibliography


Table 1. Breakdown of host countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>PD</th>
<th>UA</th>
<th>IC</th>
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<tbody>
<tr>
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<td>51</td>
<td>42</td>
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**UE**

<table>
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**OECD**

<table>
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**Latin America**

<table>
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<tr>
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<td>73</td>
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<tr>
<td>Max/min</td>
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<td>112/8</td>
<td>91/6</td>
<td>110/5</td>
</tr>
</tbody>
</table>

Spain’s position within the ranking (76 countries)

| Spain’s position within the ranking (76 countries) | 45-46 | 17-22 | 32  | 51-53 |

Source: Hofstede (2001), Hofstede et al. (2010).
### Table 2. Results of performed fsQCA

#### EU subsample

<table>
<thead>
<tr>
<th>Causal configurations</th>
<th>Raw coverage</th>
<th>Unique coverage</th>
<th>Consistency</th>
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</thead>
<tbody>
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<td>MF<em>IC</em>UA<em>PD</em>IEX*-LD</td>
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Solution coverage: 0.74
Solution consistency: 0.88

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<tr>
<th>Absence</th>
<th>Conjunction</th>
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</table>

#### OECD subsample

<table>
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<th>Raw coverage</th>
<th>Unique coverage</th>
<th>Consistency</th>
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</thead>
<tbody>
<tr>
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<tr>
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Solution coverage: 0.70
Solution consistency: 0.95

<table>
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<th>Conjunction</th>
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</table>

#### Latin America subsample

<table>
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<tr>
<th>Causal configurations</th>
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<thead>
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