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A PARADOX IN RELATIONSHIP BETWEEN CULTURAL DISTANCE AND FOREIGN ENTRY MODEL SELECTION: A KOREAN CASE

Cheong-A Lee, Pusan National University, Busan, Korea
Ho-Yeol Bang, Pusan National University, Busan, Korea
Jong Wook Ha, Columbus State University, Columbus, Georgia, USA
Joo Young Lee, The University of West Alabama, Livingston, Alabama, USA
Young Hee Yun Kim, Tuskegee University, Tuskegee, Alabama, USA

ABSTRACT

There exit a paradox with respect to the relationship between cultural distance and foreign entry mode selection. Some studies argue that international firms will choose cooperative modes of entry when entering culturally distant foreign markets due to the accompanying risk and uncertainty. Other studies argue that international firms will choose wholly owned subsidiaries when entering the same markets instead of cooperative modes.

Firms prefer cooperative modes when entering culturally distant foreign markets, because they attempt to minimize their resource commitments by utilizing cooperative modes(joint ventures or strategic alliances). The cooperative modes are considered as a way of bridging cultural distance. Transaction cost economics, however, helps to explain the preference to wholly owned subsidiaries. High cultural distance may increase the costs of direct control and communication, and costs associated with cooperative modes may be even higher.

Past studies of the relationship between cultural distance and entry mode selection have provided contradictory results. Several studies have found evidence that firms may select wholly owned modes of entry when cultural distance is high, and other studies the opposite ones supporting cooperative modes. In this study we will attempt to find a new evidence on the relationship between cultural distance and entry mode selection with the sample of Korean firms.

1. INTRODUCTION

Various studies have been made regarding the foreign entry mode selection. Dunning (1977, 1980, and 1988) suggested an eclectic theory including international trade, industrial organization, and market imperfection. He showed that monopolistic advantage, market location advantage, and internalization advantage are the selection models for foreign market entry strategy. Knickerbocker (1973), Hymer (1976), and Dunning (1979, 1980a, 1980b) used monopolistic industry structure as a factor to explain the foreign entry mode selection.

There are many studies to explain the foreign market entry mode strategies. Recent studies focus on the effect of cultural factors to foreign market entry mode selection strategy. Shane (1994) argued that the different credibility level of countries affect their understanding on the transaction costs and the selection of entry mode. Annad and Delios (1997), Padmanabhan and Cho (1996), Kogut and Singh (1988), and Erramilli and Rao (1993) analyzed the relationship between the cultural difference and control levels, and showed that the culture has related to entry mode selection. Erramilli (1996) found that a culture of a country affects the level of share ownership on foreign subsidiaries. Hennart and Larimo (1998) compared Japanese and Finnish companies to show that national cultural index affects the ownership structure of a company.

One of the most important topics for last 20 years in the field of international business is foreign direct investment (Javetski, Edmondson, and Echikson, 1996). The key question of decision making on this topic is the selection of entry mode to foreign market (Geringer, Beamish and daCosta, 1989; Woodcock, Beamish, and Makino, 1994). Root (1987) showed that the appropriate selection of foreign market entry mode can be an important factor for the success of foreign subsidiaries.

Despite of the numerous studies to show the distinct causal relationship between cultural variables and entry mode selection, there is a paradox on the cultural difference and entry mode selection. Different studies often show the opposite direction of causal relationship between these two variables. For example,

there are studies to support that more cultural difference makes the joint management by cooperation is more desirable in international joint venture investment (Kogut and Singh, 1988; Gatignon and Anderson, 1988; Erramilli and Rao, 1993; Lachman, Nedd, and Hinnings, 1994). On the other hand, the best method to reduce the problem from cultural distance is to adopt the whole ownership with the strong top-down control (Shane, 1994; Padmanabhan and Cho, 1996; Erramilli, Agarwal and Kim, 1997).

Based on the paradox of the existing studies, this study tries to show if there exists the same paradox of the relationship between cultural distance and entry mode selection with the cases of Korean companies. There are few studies to use cultural factors to explain the topic, as most studies focused on economic approach based on transaction cost theory. This study will set the research hypotheses regarding the effect of cultural distance on foreign market entry mode, and examine the hypotheses empirically.

2. THEORETICAL BACKGOUND ON FOREIGN MARKET ENTRY STRATEGY AND CULTURAL DIFFERENCE

A firm has been socialized by the values and norms shared by the people in a society in which their business has been located. The social value affects the attitude of a firm and the foreign direct investment strategy (Chen, Chen and Meindl, 1998). Many firms keep their own organizational culture and motto regardless of the national background (McGrath and MacMillan, 1992). However, the national culture remains one of the most important factors to explain the national difference in attitude of a firm. Accordingly, the cultural value can be used to explain the national difference of attitude. Firms learn the cultural value and share it by the national environment where they belong. As a firm's business is globalized more, the effect of cultural value on a firm is greater. As the globalization of a firm's business, the firm should understand how the attitude of clients in different markets affects their success in business.

There are many studies made on the effect of cultural factors to foreign market entry strategy. Most of them focused on strategic alliance or joint venture investment. These studies analyzed the trust and cooperation among partners, control methods, and the ownership structure. Parkhe (1993), Tiessen (1994), Tyler and Steesma (1998), Barney and Hansen (1994), and Weaver et al. (2000) studied the trust and strategic alliance among partners. Annad and Delios (1997), Padmanabhan and Cho (1996), Kogut and Singh (1988), and Erramilli and Rao (1993) studied the relationship between cultural difference and control level. Erramilli (1996) and Hennart and Larimo (1998) investigated the relationship between culture and ownership shares.

For the successful strategic alliance, business partners should strengthen the stable relationship, and reduce the risk from the opportunistic behavior. To achieve these goals, the higher level of trust between partners is required. Some cultures tend to have higher level of trust than other cultures (Hofstede, 1991; Shane, 1994). Trust is a complicated phenomenon, and it can be formalized unofficially by the shared goals and values. It also can be generated by systematic protection mechanism.

Barney and Hansen (1994) explain that three types of trust (week, semi-strong, and strong trust) promote effective alliance. Weaver, Marino, and Steensma (2000) used three cultural dimension of masculinity, individualism, and uncertainty avoidance) to analyze the effect of culture on a firm's strategic alliance with 8 countries out of 53. Masculinity and individualism have negative effects, and uncertainty avoidance has positive effect on accepting the alliance by a firm.

Hofstede (1980) suggested four cultural dimensions to explain the attitude to pursue alliance strategy. Masculinity is related to the degree of competitiveness among members of a firm, and a culture with masculinity negatively affects the attitude of a firm's alliance. Individualism negatively influences the alliance between firms and voluntary co-management (Tiessen, 1997). Since strategic alliance diversifies risk into a partner firm, uncertainty avoidance works positively in alliance strategy (Tyler and Steensma, 1998).

According to Hofstede (1980), a country with higher level of power distance tends to show that the authority and responsibility of decision making focuses on the owner of a firm, and the subsidiaries of the

firm have to accept the stronger control with hierarchy. The subsidiaries of the countries with higher level of uncertainty avoidance have hierarchy structure which depends on documents and standardized regulations to avoid any uncertainty in the future. Therefore, Eramilli (1996) derived a conclusion that a firm in a country with higher level of power distance and uncertainty avoidance tries to maintain higher level of ownership into their foreign subsidiaries.

A study to compare the Japanese and Finnish subsidiaries in the U.S. shows that Japan has higher level of power distance and uncertainty avoidance than that of Finland. These differences should influence the selection of entry mode by the firms from these two countries. From the perspective of transaction costs, Hennant and Larimo (1998) used the level of difficulty to acquire the local knowhow from the local country and showed that the greater cultural distance makes it more difficult to learn the local knowhow. Contrary to the Erramilli (1996)'s study, the U.S. subsidiaries by Japanese firms prefer joint venture investment to those by Finnish firms. This result shows that cultural distance is more effective to determine the entry mode than the national culture when a firm has to decide the ownership on its subsidiary. Hennart and Larimo argued that it is not appropriate to conclude that the national culture of a local country for the subsidiary affects the ownership structure. The foreign market entry mode is determined by cultural distance, not by the inherent national cultures.

3. HYPOTHESES ON FOREIGN MARKET ENTRY MODE AND NATIONAL CULTURAL DIFFERENCE

3.1 Transaction cost theory and foreign market entry strategy

Kogut and Singh (1988) and Erramilli and Rao (1993) argued that greater cultural distance promotes the joint venture mode of sharing more control. Annad and Delios (1997) and Padmanabhan and Cho (1996) by contrast proved that greater cultural distance is related to a new investment by wholly owned subsidiary which requires higher level of control.

Transaction cost theory is effective to explain why greater cultural distance makes a firm prefer wholly owned subsidiary when cooperation or co-management cost more than the direct control. Greater cultural distance increases the costs of alliance as well as direct control. There are a few reasons for increasing cost of alliance. First, liquidity of local country cannot be revealed by the joint venture contracts, and it increases the transaction costs (Hannart, 1989; Klein, Frazier and Roth, 1990; Sutcliffe and Zaheer, 1998). Second, a flexible circumstance of the local country makes the firm unable to predict every situation and therefore increases the transaction costs (Hannart, 1989; Klein, Frazier and Roth, 1990; Sutcliffe and Zaheer, 1998). Third, it is almost impossible not to have any partner without any opportunistic behavior to create additional costs (Anderson and Coughlan, 1987; Hennart, 1989; Erramilli and Rao, 1993). Last, internal uncertainty is hard to measure when a firm evaluates its partner firm's performance. Under these circumstances, a firm adopts a wholly owned subsidiary to control and monitor its employees (Bowen and Jones, 1986; Anderson and Coughlan, 1987; Hannart, 1989; Erramilli, 1991). A wholly owned subsidiary reduces any external uncertainty through the centralized decision making (John and Weitz, 1988; Klien, Frazier and Rao, 1990), saves communication costs (John and Weitz, 1988; Klein, Frazier and Rao, 1990), and protects a firm from its partner's opportunistic behavior (Sutcliffe and Zaheer, 1998).

Most previous studies support that greater cultural distance makes a firm enters a foreign market with wholly subsidiary by investing on its own. Padmanabhan and Cho (1996) studied the foreign entry mode by Japanese manufacturing firms, and proved that Japanese firms prefer single investment with wholly owned subsidiary when they face greater cultural distance. Erramilli (1996), and Agarwal and Kim (1997) found that Korean firms entering a country with greater cultural difference hold more ownership. Annad and Delios (1997) verified that Japanese firms enter a country which is culturally similar to Japan with the joint venture. Japanese firms prefer wholly owned subsidiary when they enter the north American markets and European markets. The U.S. firms prefer stronger controls when they enter a country with greater cultural difference. These discussions lead to the following hypothesis.

Hypothesis 1: It is more appropriate to enter as wholly owned subsidiary with greater cultural difference.

This study tries to test the paradox of cultural distance and entry mode selection, and the opposite hypothesis can be possible too. There are three factors to explain why greater cultural distance makes a firm prefer joint venture investment.

First, national cultural difference influences the perception of the top management to consider the entry mode and cost. Greater cultural distance increases the cost of management and organization to manage more various employees' expectations (Kogut and Singh, 1988). A loca joint venture can reduce the cost by transferring the cost from the cultural distance to local managers who are familiar to local cultures.

Second, greater cultural difference requires a firm to collect huge amount of information with greater information cost. It is not easy to transfer the parent company's knowledge to local company as the parent company is not familiar to local business practices and market environments. These difficulties can be reduced by partly allowing management by local manager. This is especially beneficial if a firm enters foreign market for the first time.

Third, national cultural difference increases the uncertainty and unpredictability of management and reduces the value of foreign investment. This leads smaller investment or smaller ownership, and joint venture with a local firm (Goodnow and Hanz, 1972; Gatignon and Anderson, 1988; Shane, 1991; Hu and Chen, 1993).

Annad and Delios (1997) argued that there exists greater knowledge barrier when a firm establishes a business in a culturally remote country. Therefore a firm minimizes the input of resources by making joint venture investment to reduce the inherent uncertainty from the cultural difference (Hwang, 1992). Gatingnon and Anderson (1988) showed that joint venture is a method to overcome cultural difference. Joint venture also reduces a risk of being forefeiture and political complexity. Joint venture is beneficial to reduce these uncertainty and increase level of local knowledge and faster organizational learning.

When a firm needs resources from a local country, or a newly entering firm needs to learn how to develop a local market with expertise, manage local workers, and organize local supply for intermediate goods and natural resources, local partner is inevitable for the success of the business. Also, as Gomes-Casseres (1990) showed empirically, the economic development of a local country is positively correlated to joint venture investment. Therefore, even from the perspective of transaction cost theory, joint venture reduces cost and uncertainty of foreign market investment.

There are many empirical studies to show that greater cultural difference makes a firm prefer joint venture investment. The study on the U.S. manufacturing firms showed that the U.S. firms prefer joint venture to whole subsidiary when they enter European markets (Chu and Anderson, 1992). The U.S. manufacturing firms establish joint venture companies in Japan or South Asian countries (Anderson, 1987). Kogut and Singh (1988) proved the similar results, and Kim and Hwang (1992) showed the same results from the U.S. manufacturing firms. These findings derives the following hypothesis.

Hypothesis 2: It is more appropriate to enter a foreign market with joint venture investment when there exists greater national cultural difference.

The following table summarizes the difference between the hypothesis 1 and 2.

TABLE 1: Conflicts between the cultural environment and foreign market entry strategies

Factors	Factors in detail	Entry strategy	Major studies
Uncertainty of External Environment	Strong national risk – Strong control	Single venture investment	Anderson & Gatignon (1980), John & Weitz (1988)
	Market potential – strong control	Joint venture	Gomez-Casseres (1990)
National culture difference	Larger cultural difference – Strong control	Single venture	Agarwal & Kim(1977), Bowen & Jones(1986), Padmanabhan & Cho(1996),

		investment	Anand & Delios(1997)
	Larger cultural difference – Strong control	Launching a new firm	Klein Frazier & Roth(1990), Sutchliffe & Zaheer(1998)
	Larger cultural difference – Strong cooperation	Joint venture	Kogut & Singh(1988), Erramilli & Rao(1993), Gatignon & Anderson(1988)
	Larger cultural difference – Obtaining corporate culture	Acquisition	Morosini(1988), Jemoson & Sitkin(1980), Hofstede(1980)

3.2 Effect of National Cultural Difference on Selecting Acquisition and New Investment

According to hypothesis 1, a firm will choose a wholly owned subsidiary with greater cultural difference. There are two types of wholly owned subsidiary. First is to acquire an existing local firm, and second is to establish a new business. The cultural difference also influences the selection of these two different types of entry modes.

Morosini (1988) argued that national cultural difference enhances the benefit from acquisition and mergers. The national cultural difference includes the routines to structure an organization. The routines are defined as frequently used methods to organize management activities. It includes the process of research development and monitoring the lower-level organizations. The differentiated routines are important to determine the performance of international mergers and acquisitions (Jemison and Sitkin, 1986; Hofstede, 1980), and the enhanced outcome from the routines cannot be transferred to other countries' culture (Shane, 1993; McGarth et al., 1992; Bourgoin, 1984; Kreacic and Marsh, 1986; Barney, 1991).

Morosini (1988) found that 400 firms with international mergers and acquisitions in Italy have increased sales revenue in two years after the mergers and acquisitions. Especially, firms with lesser tendency to avoid uncertainty show more positive effects from the mergers and acquisitions. Hence, mergers among countries with greater cultural difference can increase the performance of merged firms as mergers provide more various routines. The following hypothesis is derived from the above discussions.

Hypothesis 3: With greater national cultural difference, new investment will be preferred in case of single investment method.

3.3 Analysis of Moderate Effect on Firms' Performance

If a firm faces a limit of its growth in the domestic market, it advances its value creating activities to the global markets. In general, firms begin with low level engagement of international business such as exporting products, and develop their business into foreign direct investment as they acquire experience and expertise in their foreign markets. With the direct investment to the foreign market, they become to be interested in how to make more profits by controlling their market more strongly.

The most common factor to increase the uncertainty and risk of foreign investment is the cultural difference between two countries. Greater cultural difference will influence negatively the performance of a firm. However, as a firm is globalized more, the effect of cultural difference on a firm's performance will diminish. There are three explanations for this relationship.

First, a firm can understand more on the culture of a local country as the firm has more experience on global business. Better understanding on local culture will reduce uncertainty and the effect from the cultural difference.

Second, a firm can globalize its organizational culture as the firm experiences various different cultures from the global business. This will reduce the cultural difference between the parent country and the local country.

Third, a firm can learn how to solve various problems from the different cultures as the firm has more

experience in global business. The firm's internal capacity to handle cultural differences will be increasing due to globalization, and therefore the effect from the cultural difference on the firm will be reduced.

Global strategy is a strategy a firm can learn from its global business and use to other subsidiary in different country (Ohmae, 1990). The global strategy requires higher level of integration and cooperation among multinational cooperation's overseas subsidiaries (Gupta and Govindargan, 1991; Rosenzweig and Singh, 1991). Accordingly, to perform global strategies, a firm needs substantially higher level of globalization. A firm with higher degree of globalization possesses more knowledge on how to handle different cultural environment. This will help a firm to reduce its uncertainty in business with the increase in globalization of the business. The following hypothesis is derived from the above.

Hypothesis 4: The greater level of a firm's globalization will reduce the effect of national cultural difference on a firm's performance.

4. RESEARCH METHODOLOGY AND RESULTS

4.1 Sample Selection and Method of Data Collection

This study selected the population from the listed firms which own foreign subsidiaries based on the "Directory of Overseas Markets Investing Companies" by Korea International Trade Association. The surveys had been carried out with the randomly selected 320 companies from the directory. 106 out of 320 companies replied the surveys, and the 93 companies are used for the empirical studies after discarding the 13 companies with the inappropriate answers for the empirical analysis.

The distributions of industries and regions on the sample companies are summarized in the table 2 and 3. As seen in the tables, the distribution of industries and regions from these companies follow the similar patterns found in the entire distributions in Korea, and this means the sample data represents the population properly.

TABLE 2: The Distribution of Industries on Responding Companies

	Industry								Total
	Transpor-tation/Con-stuction	Finance	Chemistry/ Energy	Electric/ Electronic/ Machinery	Automobile/ Heavy Industry	Food/ Pharma-ceutical	Apparel/ Textile	Miscella-neous	Total
Frequency	10	8	8	23	10	12	14	8	93
Ratio (%)	10.8	8.6	8.6	24.7	10.8	12.9	15	8.6	100

Table 3: Regional Distributions of Sample Companies

	Regions and Countries							Total
	U.S.A.	Europe	Japan	China	South America	South-east Asia	Others	Total
Frequency	8	19	4	28	3	25	6	93
Ratio (%)	8.6	20.4	4.3	30.1	3.3	26.8	6.5	100

4.2 Measurements of Variables and Methods of Analysis

(1) Measurements of Variables

1) Mode of Entry to Foreign Market: The entry mode to foreign markets follows the most conventional way of fully owned subsidiary investment and joint venture investment. The acquisition of the existing firms and the new establishment investment are used to categorize the fully owned subsidiary investment. To get qualified for the fully owned subsidiary investment, the ownership of shareholders on a foreign

subsidiary needs to be above 95%.

2) Difference on National Culture: Difference on national culture means the difference of culture between the home country and the target country. When a firm enters an overseas market, it has to face political, cultural, economic, and social environments which are quite different from those in the home country, and it has to establish the strategies fully considering these cultural differences. Kogut and Singh (1994) measured the cultural distance by utilizing four dimensions of national culture by Hofstede (1980) which are power distance, uncertainty avoidance, masculinity/femininity, and individualism/collectivism. This study follows the four dimensions of national culture by Hofstede (1980) and develops the detailed measurements for measuring them directly. First, the power distance will have five detailed categories of measurement: the degree of power concentration, coexistence of wealth and prestige, the ratio of middle-income class, the respect toward the elderly people, the centralized organization structure. The individualism has four subcategories: priority on collectivism, the nuclear family system, the team-based profit distribution system, and the merit-based compensation system. The avoidance of uncertainty can be measured by four detailed categories: the completion of rules and norms, the degree of acceptance on revolutionary ideas, punctuality, and the degree of exclusion on foreign people. Lastly, the masculinity is measured by the following four categories: the successful career-oriented value system, the problem solving methods based on competition rather than cooperation, consideration on the people in need and paternalism, and the degree of women's political participation. The Likert scale of seven measures these categories.

3) Level of Globalization: To measure the level of globalization, the ratio of sales revenue from overseas' subsidiaries to the total sales revenue for a firm and the number of overseas' subsidiaries are used.

4) Performance: Two variables are used to measure a firm's performance. The growth rate of total sales revenue of a firm compared to its competitors for last three years and the degree of satisfaction on the performance of subsidiaries with foreign direct investment are measured by Likert scale of seven to measure the performance.

(2) Methods of Analysis

Before the test of the hypotheses, Cronbach's alpha and factor analysis are used to test the reliability of the explanatory variables. The analysis of variance is used to show the independent effect of the cultural difference. The analysis of variance showed how the cultural difference affects the selection of fully owned subsidiary investment and joint venture investment. Logistic regression analysis is used to show the influence of cultural difference on the selection between new investment and acquisition of a business in a single investment for foreign market entry. The degree of cultural difference is used to separate two different groups of companies with and without the relevant entry strategies according to the different environments. The analysis of variance is also used to examine which group has higher level of performances based on their selections of the entry strategies. Lastly, with the assumption that a highly globalized firm can reduce its uncertainty of decision makings due to cultural difference, a regression analysis is used to test whether a degree of globalization can work as a moderator on the effect of cultural difference to a firm's performance.

4.3 Reliability and Validity Test

To test reliability and validity, reliability analysis and factor analysis are used. Reliability test measures the degree of reflecting a structured information to the total variance. This study uses Cronbach's alpha reliability coefficient to test reliability based on internal consistency. It can be said to have reliability when Cronbach's alpha is greater than .6. As seen in Table 4, power distance (.791), individualism (.762), and uncertainty avoidance (.713) have the value greater than .6 and showed enough reliability. However, masculinity has .476 to be a less reliable variable.

Validity means the measurement variables' degree of reflecting the concept or property of the intended measurements. The factor analysis is used to measure the validity in this study. From the table 4, each explanatory variable has the higher value for the factor showing higher validity level. Masculinity has

shown lower level of validity of less than .6. This variable is excluded from the analysis.

TABLE 4: TEST OF RELIABILITY AND VALIDITY ON VARIABLES FOR CULTURAL DISTANCE

	Power distance	Individual -ism	Uncertanty Avoidance	Masculinity	Cronbach's Alpha
Degree of power concentration	.781				
Coexistence of wealth and fame	.751				
Ratio of middle income households	.775				.791
Respect on the elderly	.667				
Centrally controlled organization	.654				
Collectivism priority		.821			
Nuclear family system		.653			.762
Team-based profit sharing		.752			
Performance-based payment system		.571			
Established regulations and norms			.721		
Acceptance of innovative ideas			.771		.713
Punctuality			.678		
Exclusion of foreigners			.552		
Success-oriented viewpoint				.467	
Problem solving through competition				.458	.476
Consideration on people in need				.345	
Women's political participation				.418	
Cumulative variance (%)	28.4	48.7	69.4	72.1	

4.4 Tests of Hypotheses

The Analysis of Variance is used to test hypotheses one and two by analyzing the effect of cultural difference on a firm's overseas market entry strategies: fully owned subsidiary investment vs. joint venture investment. First, as seen in Table 5, the entire sample of 93 companies can be divided into two groups: 56 companies with fully owned subsidiary investment, and 37 companies with joint venture investment. The mean value of fully owned subsidiary investment group is 3.9095, which is lower than that of joint venture investment group, 4.5397. The mean values from these two groups show the significant difference.

TABLE 5: Descriptive Statistics on Two Groups' Cultural Differences

	N	Mean	Standard Deviation	Standard Error	95% Confidence Interval on Mean Value	
					Lower Bound	Upper Bound
Fully owned subsidiary investment	56	3.9095	1.05609	.13634	3.6367	4.1823
Joint venture investment	37	4.5397	1.80987	.34831	3.8237	5.2556
Total	93	4.1051	1.35700	.14549	3.8159	4.3943

The result of the Analysis of Variance on the difference of mean values from two groups is reported in Table 6. As known from Table 6 which analyzed the difference of mean values between two groups, the significance value is .44 with the significantly different at 5% significance level. Based on the findings, the Hypothesis 1 in which firms prefer fully owned subsidiary investment to joint venture investment when they have to face larger cultural distance has been rejected, and the hypothesis 2 is accepted. In other words, Korean companies with overseas investments prefer joint venture investment to fully owned subsidiary investment when they have larger cultural distance.

TABLE 6: The Analysis of Variance on Difference of Mean Values for Two Groups

	Squared Sum	Degree of Freedom	Squared Average	F-Value	Significance Probability
Among Groups	7.3974	1	7.394	4.163	.044
In Group	150.971	82	1.776		
Total	158.366	93			

To test the hypothesis 3, logistic regression analysis is used. The hypothesis 1 indicates that a firm will prefer the establishment of a new subsidiary when the firm enters a foreign market with the wholly owned subsidiary. A new establishment of business is assigned to 1, and the acquisition of an existing firm 0. The results are summarized in Table 7. Cultural distance is measured by power distance, uncertainty avoidance, and individualism.

Table 7: Results of Logit Regression on Hypothesis 1

Explanatory Variables	Beta Coefficient	S. E.	p-Value
Constant	.046		
Power Distance	.046	.213	.031*
Uncertainty Avoidance	.368	.245	.048*
Individualism	-.348	.253	.058

-2LogLikelihood = 89.325
Chi-squared = 19.30 ($p < .05$)
% Correct = 69.8%

Chi-squared statistics shows that the goodness of fit of the model is acceptable within the 5% significance level, whereas percentage of correct is not high. Beta coefficients on power distance and uncertainty avoidance indicate that a firm prefers a new establishment with more cultural distance described by power distance or uncertainty avoidance. Individualism as one of the factors of cultural distance has negative relationship with the strategy of a new wholly owned subsidiary, but it is less statistically significant than other two variables. Based on the analysis, the hypothesis 3 is accepted.

The above analysis shows that the Hypothesis 1 is rejected whereas the hypothesis 2 and three are accepted. When a firm pursues globalization of business, there are different strategies of globalization to enhance performance of the firm. The paradox of cultural difference and foreign market entry mode selection means that it is unclear which strategy of globalization is more effective. The acceptance of hypothesis 2 and three show that Korean firms prefer joint venture investment with greater cultural difference (Hypothesis 2), and Korean firms prefer new investment (Hypothesis 3). However, they cannot answer whether these strategies can enhance a firm's performance. More studies will be needed to answer this question.

Lastly, to test hypothesis 4 which investigates the moderator effect of cultural difference on the degree of globalization. Moderated multiple regression is used to test the hypothesis 4. The hypothesis 4 analyzes how the globalization level of a MNC affects the magnitude of impact of cultural distance on the performance of the firm. To test if the globalization level becomes the moderator variable, this study estimates the following model.

$$Y = \alpha_1 + \beta_1 X_1 + \varepsilon_1$$
$$Y = \alpha_2 + \beta_2 X_2 + \varepsilon_2$$
$$Y = \alpha_3 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_1 X_3 + \varepsilon_2$$

Y is performance of a firm, and X_1 measures cultural distance. X_2 is globalization level measure. To make the globalization level variable a moderator variable for the impact of cultural distance on performance, β_2 needs to be zero, and β_3 has to have non-zero value. The results of the regression analysis on the above

model are summarized in the Table 8.

TABLE 8: Results of Moderated Regression of Globalization Level on Cultural Distance Impact

Explanatory Variables	Model 1		Model 2		Model 3	
	β	p-value	β	p-value	β	p-value
Power distance (PDI)	.460	.031*	.440	.036*	.474	.039*
Uncertainty avoidance (UAV)	.368	.048*	.298	.049*	.236	.042*
Individualism (IND)	-.348	.058	-.304	.236	.012	.123
Globalization level (GLO)			.054	.120	.054	.184
PDI * GLO					.022	.364
UAV * GLO					-.036	.236
IND * GLO					-.012	.475
F-statistic	3.276 ($p<.05$)		3.326 ($p<.05$)		3.174 ($p<.05$)	
R-squared	.223		.227		.256	

All three models maintain good F-statistics with 5% significance level, and R-squared values are relatively low. The survey of satisfactory level on the performance of overseas subsidiaries is used to measure performance in the above estimations. The interactions of globalization level and the other three factors of cultural distance show negative evidence on the hypothesis 4, since they are not significant explanatory variables in the models. Also the globalization level as a separate explanatory variable in the models cannot produce any significant explanatory power. Based on the results of empirical analysis, the hypothesis 4 is rejected.

5. SUMMARY AND CONCLUSION

Even though there are numerous studies regarding the causal relationship between cultural variable and foreign market entry mode selection, the relationship between cultural difference and entry mode has a paradox. Depending on studies, the causal relationship has revealed in the opposite direction. For example, one study argued that a joint venture investment based on cooperation is needed when a firm is investing in a country with greater cultural difference, whereas another study suggests that the best entry mode is wholly owned subsidiary of strong top-down control of management.

This study tries to test the paradox on the foreign market entry mode selection by Korean firms. Since there are few previous studies focusing on cultural factors, this study has contributed to extend the previous research method based on transaction cost theory, and provided empirical findings on Korean firms' foreign market entry mode strategy and their performance.

The summary of empirical analysis is as follows. First, Korean firms prefer joint venture investment with greater cultural difference from a local country, since they want to reduce their exposure to the local investment, and acquire and utilize local knowledge easily.

Second, Korean firms prefer a new investment to merging an existing firm when they face greater cultural difference. Korean firms have more incentives to transfer parent firm's knowledge and technology to a local firm and utilize this to enhance their local market competitiveness. Korean firms have lower expected benefit from the learning management routine from an acquisition of an existing local firm. Lack of global experience to fully utilize the learning of local routine on their global business can be one of the reasons for this empirical result.

Third, a firm with higher degree of globalization can reduce the impact of cultural difference on its performance as it can reduce the uncertainty from the foreign market. The hypothesis 4 has set by this reasoning, and tested for Korean firms. The empirical result rejects the hypothesis 4, and the elaboration of the empirical model can derive different empirical results on the hypothesis.

This study utilizes the perception scale by top managers on the performance of foreign investment firms, and accordingly it has the limit from the subjectivity issues. The subjective measures were used since

objective quantitative measurement data is very difficult to collect. The future study needs to develop methods to use more quantitative measures in analyzing the effect of cultural difference on foreign market entry mode selection process. Another limit is the difference in numbers of firms selecting acquisition and new establishment of a business. Since the number of firms with acquisition is smaller than those with new establishment, it is possible to have any issue of significance of the result testing the hypothesis 4. Future research should overcome these limitations of this study.

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