MASTERARBEIT / MASTER’S THESIS

Titel der Masterarbeit / Title of the Master‘s Thesis

„The choice of market entry mode for a hypothetical German juice company entering into the Japanese market – a theoretical approach“

verfasst von / submitted by

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angestrebter akademischer Grad / in partial fulfilment of the requirements for the degree of

Master of Science (MSc)

Wien, 2018 / Vienna, 2018

Studienkennzahl lt. Studienblatt / degree programme code as it appears on the student record sheet:	A 066 914
Studienrichtung lt. Studienblatt / degree programme as it appears on the student record sheet:	Internationale Betriebswirtschaft UG2002
Betreut von / Supervisor:	ao. Univ.-Prof. Mag. Dr. Josef Windsperger

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List of Abbreviations

CD	Cultural Distance
EJV	Equity Joint Venture
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IFDI	Inward Foreign Direct Investment
JETRO	Japan External Trade Organization
JV	Joint-Venture
M&A	Merger & Acquisition
MED	Market Entry Decision
MEM	Market Entry Mode
METI	Ministry of Economy, Trade and Industry
MNE	Multinational Enterprise
OFDI	Outward Foreign Direct Investment
OLI	Ownership, Location, Internalization
ROI	Return on Investment
SME	Small and Medium-Sized Enterprise
TCE	Transaction Cost Economics
UNCTAD	United Nations Conference on Trade and Development
WGI	Worldwide Governance Indicator
WOS	Wholly Owned Subsidiary

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0 Abstract

Throughout the last decades foreign direct investment into Japan has been more and more promoted by deregulation in order to boost the local economy. An upward trend has been seen, however compared to other developed countries, Japan is still facing a low degree of inward foreign direct investment. The Japanese market possesses specific market entry barriers, which are difficult to bypass from being culturally opposing to many countries and being prone by distribution impediments with cartel like market constructs. Whilst taking various market entry barriers into account, this dissertation is applying the empirically proven Cultural Distance framework and the Institutional Theory onto a hypothetical case, a German juice company entering into the Japanese market, to find a suitable market entry mode. For long-term success, the findings and recommendation given based on the research of this paper is a greenfield investment. Although the frameworks were applied onto a hypothetical case, the same recommendation applies onto any other company working within the same sector, who are planning to expand into Japan in the future.

1 Introduction

In the past, up until the beginning of the 70s, legal restrictions in Japan prohibited foreign firms to form mergers and acquisitions (M&A). The maximum allowed ownership was through joint ventures (JV), limited to a 50/50 or minority JV share (Turpin, 1993). The Japanese Government being aware that a host country can benefit from capital movements, accompanied by intangible assets invested, gradual deregulation on inward foreign direct investment (IFDI) has taken place in the past, from the 70s up until the recent years (Ito & Fukao, 2005).

Based on numbers published by the United Nations Conference on Trade and Development (UNCTAD), looking at the FDI in- and outflows (in

US$) of the last years and the Host Economy Transnationality Index[1] from 2004, it stands out that comparing all Triad countries (Europe, United States, Japan) the outflow from Japan into other countries is greatly higher than the inflow from other countries into Japan. In 2004 the FDI inward flow into Japan consisted only of 2% of the gross domestic product (GDP) (as cited in Shenkar, Luo, & Chi, 2015). Below, table 1 and figure 1 display the above-mentioned indices from the year 2004, 2016 and 2017.

FDI Inward Stock (Billion $ and % of GDP)					
Year		**2016**	**2017**	**2016**	**2017**
World		1,962	1,497	2.60%	1.90%
Developed Countries		1,234	781	2.58%	1.57%
	Europe	546	303	3.31%	1.76%
	U.S.	486	292	2.61%	1.51%
	Japan	11	10	0.23%	0.21%
FDI Outward Stock (Billion $ and % of GDP)					
Year		**2016**	**2017**		
World		1,561	1,367	2.07%	1.74%
Developed Countries		1,152	1,017	2.41%	2.05%
	Europe	489	409	2.97%	2.37%
	U.S.	305	316	1.64%	1.63%
	Japan	145	160	2.93%	3.28%

Table 1 – 2016/17 Global FDI Out- & Inward Flow. Adapted from “UNCTADstat,” by United Nations, 2018, United Nations Conference on Trade and Development. Retrieved September 19, 2018, from http://unctadstat.unctad.org/EN/Index.html. Copyright 2016 by United Nation.

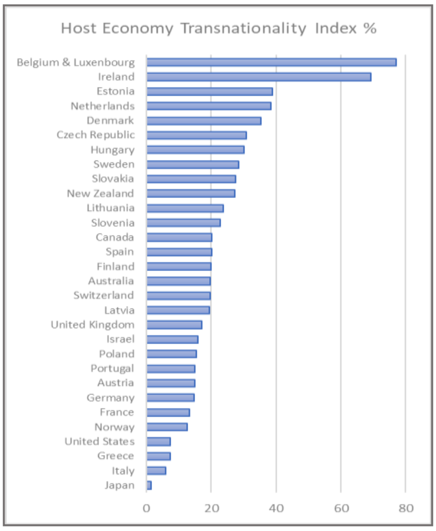

Figure 1 - 2004 Global FDI Out- & Inward Flow. Adapted from International Business (p. 85), by Shenkar, Luo & Chi, 2005, New York: Routledge. Copyright 2005 by Taylor & Francis.

Anthony H. Rowley published in the Wall Street Journal and in the Asian Wall Street Journal that in the past up until the 21st century, Japan has allured the least amount of foreign businesses to directly invest into the Japanese market, compared to other developed countries such as the United States or the United Kingdom. Different factors play a significant role in this. Firstly, being historically suspicious of foreign people and

[1] The Host Economy Transnationality Index is based on an average of 4 indicators: the foreign direct investment inflow in % of grass capital, the inflow compared to the GDP in %, the value added of foreign enterprises compared to the GDP in % and the share of foreign employment opposed to total employment (Shenkar, Luo, & Chi, 2015).

businesses, based on the fact that the country was closed for two centuries to foreign nationals until the mid-19^{th} century. Secondly, having regulatory restriction prohibiting foreigners to invest through full ownership, having to opt for joint ventures. Thirdly, possessing several market entry barriers starting from retail system fragmentation over to nepotism throughout the supply chain ranging from producers, suppliers to distributors (as cited in Shenkar, Luo, & Chi, 2015). Also, Czinkota and Kotabe (1991) have highlighted these cultural and distribution impediments as major market entrance issues, next to the governmentally imposed trade barriers.

Blomstroem, Gangnes and La Croix (2001) have investigated Japan's economy, it's continuity and change in the 21^{st} century, where the above mentioned governmental, cultural and distribution impediments are also emphasized. They believe that the governmental impediments are still somewhat non-transparent, however do believe in an improvement in the future. Distribution impediments in Japan are very existent. The most renown barrier is the so-called keiretsu system, which is a vertical cross-ownership of shares along the supply chain, increasing the limitation of foreign market entry by building a 'loyalty wall' between the existent group stakeholders and the new entrant. Lastly, another important and pivotal impediment is represented by the costs of running a business in Japan starting from corporate taxes, notably high rental costs and expensive labour costs (Blomstroem, Gangnes, & La Croix, 2001).

Rowley (as cited in Shenkar, Luo, & Chi, 2015) also states that the current prime minister in Japan, Shinzo Abe, has announced in 2006 an 'opening' of the country for more foreign direct investments. Japan's need for more FDI arose on multiple factors, from low birth rates projecting a future labour shortage over to emerging and already developed global competition. The opening of the country is implemented by weakening of former existing entry barriers, ranging from facilitation of M&As, improvement of administrative procedures and having the local government play a larger role in attracting FDI. In 2016, Japan faced a record high with IFDI since 1996. European investment through M&A rose significantly in the automotive and pharmaceutical industries. In 2016 the FDI inward flow into Japan consisted of 5.2% of the GDP, reaching for the first time the 5% benchmark (JETRO, 2017). However, in the manufacturing sector the outward foreign direct investment (OFDI) is still six times higher than the IFDI (Ito & Fukao, 2005; JETRO, 2018).

The deregulation in Japan has opened doors for foreign companies. With the state in Japan, combined with overseas competition, foreign investors and their intangible assets will likely be greatly beneficial in contributing to the productivity growth, thus the economic state in Japan (Blomstroem, Gangnes, & La Croix, 2001).

Saeed Samiee (2013) states that:

> International market entry mode decisions are among the most important strategic moves for firms contemplating international expansion. The choice of a given mode is, by definition, a long-term commitment by the firm to do business with (or in) the target market via a given market contact approach. Thus, a change from a potentially sub-optimal initial choice to the "ideal" mode can be costly to the firm in terms of lost opportunities, but also in terms of direct and indirect expenses. (p. 659)

Based on the above-mentioned facts and statements, this research paper is generated in order to contribute to the future of inward foreign direct investment into Japan; backing up the actual investment execution with a strategic decision-making. This strategic decision-making can be supported by finding a suitable market entry mode by using existing empirically proven market entry frameworks. To find a suitable market entry mode, the framework and thus this research will be applied on a hypothetical case, where a neophyte German juice company is planning to expand into the Japanese market. Conceptual market entry frameworks will be firstly investigated, applicable frameworks and models will be used onto the hypothetical case. A recommendation shall be given at the end of the dissertation which market entry mode is suitable for long-term success in a culturally distant market like Japan.

2 Literature review

In order to figure out what has been studied in the past in regard to market entry mode literature, Canabal and White III (2008) have identified and tabulated in their review paper empirical articles of strategic management research, more specifically conceptual frameworks of market entry modes, published in management journals, marketing journals and international business journals published among the years of 1980 and 2006. The findings were that manufacturing, and service were significantly the most investigated sectors, whereas the manufacturing sector leading among those two. The ranking is followed by other sectors such as the chemical, software, hotel and electronics sector. These gathered journals were also separated into home and host countries of market entry research to highlight the regions, which were commonly studied as either an entering or entered country. The primary home countries in entry mode research, which conducted a lot of foreign direct investment (FDI), are in a descending order: The United States, Japan, Worldwide, Western Europe, Great Britain, Germany, the Netherlands and China. Contrary, the primary studied host countries, which had a high percentage of inward flow of FDI are: Worldwide, Western Europe, China, United Stated, Asia, Canada, Japan and Great Britain (Canabal & White III, 2008). For Japanese companies this gap in the ranking, with being high up as a home country, however bottom of the list as a host country is reflected by the scope of studies found by Canabal and White III. All research papers cited are Japanese firms expanding into another host country (Chen &

Hennart, 2002; Cleeve, 1997; Delios & Beamish, 1999; Delios & Henisz, 2000; Hennart J. F., 1991; Hennart & Park; 1994; Hennart & Reddy, 1997; Lu J. W., 2002; Nitsch, Beamish, & Makino, 1996; Somley & Hoshino, 2005).

Lu (2003) has also written a review paper on journals of international business and strategic management from 1991 throughout to the year of 2000. All Japan related scientific papers cited in her work are entirely strategic investments of Japanese firms into host countries (Chang, 1995; Delios & Beamish, 1999; Hennart & Reddy, 1997; Isobe, Makino, & Montgomery, 2000; Ito, 1997; Nitsch, Beamish, & Makino, 1996; Padmanabhan & Cho, 1999; Tan & Vertinsky, 1996).

Zhao, Luo and Suh (2004) have contucted a meta-analytical research and reviewed international entry stragegies. They have gone for a meta-anaytical approach, to quantitatively summarize empirical literatures published in 1986 to 2002 in various journals. Among all studies examining the manufacturing sector, only one paper was cited where the United States as a country of origin expanded into the Japanese market. All other Japan related papers where again based on Japanese companies conducting FDI abroad.

Although the extent of research on FDI into Japan is not comparable to other developed countries, Japan has always been fascinating for scholars in the past (Ford & Honeycutt, 1992; Matsuo, 1989) and a lot of them have shown more interest in the Japanese market and its uniqueness in the recent years. A lot of thoughts went into the Japanese economic and business system, starting from the economic growth, the keiretsu[2] system, the distribution system over to cultural differences (Flath, 2000; Bucknall, 2006; Nakamura, 2000; Blomstroem, Gangnes, & La Croix,

[2] *Keiretsu* is a "Japanese form of corporate organization that involves a grouping or family of affiliated firms that form a tight-knit alliance and work to each other's mutual benefit" (Roy, 2009).

2001, Johansson, 2008). Also, from a market entrance strategy perspecitve, more scholars have shown interest and given reccomendation on market entry modes into Japan (Khan & Yoshihara, 1994; Wong, Furuse, & Maher, 1999; Ryans, 1988; Nels, 2015). Entry barriers are of great importance and focus from scholars, which is reflected by the increase of published papers thorughout the years (Simon, 1986; Andersson, 1996; Yamawaki, 2004). The Japanese goverment states that deregulation of entry barriers have taken place in order to promote FDI (Blomstroem, Gangnes, & La Croix, 2001). Focus now lies more on the informal barriers rather than the formal onces (Andersson, 1996, Maguire, 2001).

Czinkota and Kotabe (2000) have recently reassessed the entry and distribution strategies of foreign firms by holding a global meeting with the American and Japanese Market Association. The focus was to find the Japanese market impedements for foreign companies. The findings are that the most important market impediment are the distincitve Japanese business practices, constituted by the keiretsu system. A second important finding is that Japanese people have very high quality expectations. After these impediments were found, Czinkota and Kotabe searched for answers how these can be dealt with, in order to achieve successful market penetration in Japan. The significant key elements for success consist of two priciples: trade negotiations and better business strategies, with a focus on catering products to meet the demand of Japanese consumers by conducting market research, being service-oriented and entering into collaborative ventures (Czinkota & Kotabe, 2000).

The above-mentioned quality expectation and strict demand of Japanese people is also underlined by Takeo (1993). Furthermore, this characteristic of the Japanese is mirrored by the marketing strategies implemented by local companies. The focal point lies in customer-orientation and not in product-orientation (March, 1990). In the interest of successful market penetration and avoiding misconceptions, the key is to attain profound knowledge of the target market, including culture and business culture (Turpin, 1993; Buckley, 2002; Dibb, Simkin, Pride, & Ferrell, 2006).

The majority of the foreign companies still perceive entering into the Japanese market as a misery to date (as cited in Uzama, 2009). As Czinkota and Kotabe (2000) have stated, the key element for a successful market entrance is a thought-through business strategy. In order to contribute to the research topic and find the most eligible market entry mode to Japan, this research paper applies the most studied market entry frameworks gathered by Canabal and White III (2008) onto a hypothetical German Juice company wanting to expand to Japan, which characteristics are described in the next chapter 3. This application will be conducted by concentrating on the above mentioned greatly influencing factors: culture, host country environment, high monetary costs of running a business, customer-orientation and the host country legal environment.

3 The hypothetical company and its characteristics

This research paper will be constructed on a hypothetical company, similar to Innocent Drinks, True Fruits and Naked, which have already expanded its wings to various European countries and built a steady net worth and grown significantly in size, exceeding the status of a Small to Medium-sized Enterprise (SME).

This hypothetical company has following firm- and product-specific traits: Once the fruit is sourced from various countries across the world, the finished products, which consist of juices and smoothies, are produced within Europe, with a shelf life of approximately 40 days.

The production is taking place via contract manufacturing, whereas third parties conduct all transportation logistics. The hiring company itself conducts all sales and marketing activities internally.

4 Market Entry Modes

Pan and Tse (2000) have empirically proven that market entry decision-making can be put into a hierarchical process, where equity- and non-equity mode of entry are categorised into separate sets. The decision-making starts off with choosing between those two set, whereas the biggest difference being the intensity of control one expanding firm chooses to have and the amount of resources to be invested. The degree of control and investment are often significantly influenced by macro-economic factors. However, once a broad decision has been made between equity or non-equity, these macro-level factors alone are not sufficient when moving down a level in the hierarchical model to distinguish between specific modes of entry such as wholly owned subsidiaries (WOS), equity joint ventures (EJV), exports and contractual agreements. Thus, micro-economic factors also have to be taken into account (Pan & Tse, 2000).

How a company enters a new foreign market is a fundamental choice a company decides on, as the success of future business operations will be determined by facing different constraints depending on the chosen market entry mode. Thus, a clear understanding of the level of control and resource investment of each entry mode is key, as these characteristics differ vastly between equity and non-equity modes (Johnson & Tellis, 2008).

The intensity of and difference in control and resource commitment are laid out below in subparagraph 4.1 and 4.2. According to Root (1994), a multinational company can use a global perspective when choosing its market entry strategy, taking all available entry modes into consideration, due to resource availability. “There are many ways to skin the international business cat” (Root, 1994).

4.1 Equity Mode

The primary reasons for a company to make an investment in foreign production are to get access to raw materials, to manufacturers at lower cost and penetration of the local market. Overseas production through financial investment is rarely conducted by manufacturers who do not have experience in international business. Usually, FDI should only occur when a firm has some sort of grasp and previous learning of the foreign market, the foreign competitors and production. This understanding is rarely met by neophyte companies trying to expand internationally. Also, FDI comes with high financial investment and exposure to political risks, which a firm can avoid facing in an exporting business. A joint venture does come with the perks of entering quickly into overseas production, but this entry mode however also comes with a considerable amount of capital investment. The 'learning would be intense, but the cost of failure would be very high' (Root, 1994).

The following subparagraphs 4.1.1 and 4.1.2 describe WOS and JV in detail.

4.1.1 Wholly owned subsidiaries

A company decides to acquire a foreign firm for various reasons. Starting from gaining diversification from its geographical location, acquiring particular assets such as distribution channels, local human resource and technologies, to material sourcing. The process of acquiring a company in the target market, which already operates in a similar field, is classified as horizontal acquisition (Root, 1994). Acquisitions see an increase in popularity, due to the degree of control the investing firm sustains. The main incentives for a firm to conduct M&As are based on firm-, industry- and country-specific factors. From a firm-specific view, diversifying a company's product portolio and cross-cultural experiences are common drivers (Shimizu, Hitt, Vaidyanath, & Pisano, 2004). Acquiring a local company comes with possession of already existing products and markets (Root, 1994). From a industry-specif perspective, M&As are advantegous in technological intense markets to gain access. Lastly, country-specific factors have a great influence on M&As, starting from market growth, cultural diversity or similiarity and governmental restrictions (Hitt, Franklin, & Zhu, 2006).

Acquiring a company in the target market can come with several advantages, although those advantages are heavily dependent on the pre-selection of a suitable company, as if conducted poorly they can turn into disadvantages. According to Vermeulen and Barkema (2001) mergers and acquisitions are often chosen to increase the home country firm's knowledge base by obtaining local employees cultural, institutional and market knowledge. By using M&As as a market entry mode, firms can experience quick knowledge absorptions, however due to the cultural and institutional distance this absorption can be hindered (Zahra, Ireland, & Hitt, 2000; Bhagat, Kedia, Harveston, & Triandis, 2002). To-date national culture stays important in regard to knowledge transfer (Leung, Bhagat, Buchan, Erez, & Gibson, 2005). Hitt, Franklin and Zhu (2006) state that the integration process is the most crucial part for an unsuccessful or successful merger or acquisition, besides the selection of a suitable target company. As the target firm selection and the integration process comes with high time and energy investment, some companies opt for a market entry via wholly owned subsidiaries. Also, Root (1994) highlights these aspects. Compared to a new venture, acquisitions can yield a higher return on investment (ROI) from an earlier stage. However, a higher immediate ROI is not always the case, as ROI is constrained by performance, income and the transitional phase. First, the process of acquiring a local firm can take years. Second, the post-acquisition process also needs to be taken into account, where operations and policies need to be adapted to the investor's requirements. Thus, starting a new venture by transferring ownership and control can be measured against acquisition entry (Root, 1994).

A greenfield investment is the process of a firm setting up a local entity from scratch by hiring own staff from the home country as well as local staff (Hofstede, Hofstede, & Minkov, 2010). Although this market entry mode, similar to M&As, comes with a high degree of control, substantial obstacles are imminent. For once, the market entrance is conducted without any local knowledge and help through local partners and without having any previous set-up business operations. This lack of knowledge then will likely be gained by learning from mistakes. The upside of learning from mistakes is the build-up of tacit knowledge, which is usable for future market entrances, however high risks and costs are associated with this (Hitt, Franklin, & Zhu, 2006).

4.1.2 Equity Joint Ventures

JVs take place when two companies decide to share ownership of an organization in the target market, whereas the organization being either a new venture formed by both parties or by a partial acquisition of the already existent firm in the target country. Joint ventures can be classified into three types: 50/50, minority and majority joint ventures, depending on the size of equity share. The level of control and resource commitment shifts amongst these three (Root, 1994). Joint Ventures are the most common mode to enter an international market in the 21st century (Osborn & Hagedoorn, 1997).

Reason to form a joint venture is often driven by regulatory restriction in the host country, where foreign companies are prohibited from forming sole ventures, often occurring in developing or Communist countries. On the basis of having chosen a suitable local partner, there are many upsides to the foreign party of forming a JV: less capital investment, less risk exposure, knowledge of the local market by the host company, existing local suppliers and customers, and market reputation. JVs can have an appeal for firms that do not have a lot of experience in operations abroad. JVs serve as a way for both parties to gain new knowledge. This knowledge can be either used to improve existent firm capabilities or to form new ones (Sirmon, Hitt, & Ireland, in press).

On the down side, a common critique for JVs is the loss of managerial control over the business and its operations (Root, 1994). The difficulty in managing joint ventures between foreign parties is also underlined by Ireland, Hitt and Vaidyanath (2002) with the existence of cultural differences. Besides the culture differences, deficits in the institutional environment are also to be considered (Sirmon, Hitt, & Ireland, in press). Both of the points can build up the barriers of firms being unable to gain and transfer knowledge among the venture (Bhagat, Kedia, Harveston, & Triandis, 2002).

4.2 Non-Equity Mode

Moving on to non-equity modes of market entry, the following subparagraphs 4.2.1 and 4.2.2 give more context on the ins and outs of exporting and contractual agreements.

4.2.1 Export

By entering into a new market as a neophyte, a firm needs to overcome its fears of lack of competency in a foreign market. Thus, a neophyte would be more focused on overcoming risks of the foreign market and its political risks compared to having its focus on control maximization of operational aspects (Root, 1994).

Indirect exporting, which uses domestic intermediaries, enables a firm to increasingly spread its wings into a foreign market with no incremental investments in fixed assets, little initial costs and risks. A shift to direct exporting can be achieved by building up on its success and learnings from the indirect exporting. Hence, exporting can be perceived as an international learning experience, a development process where a firm gradually moves from indirect towards direct exporting by having a higher degree of resource commitment and control (Root, 1994).

Although indirect exporting seems like an easy access by having an experienced intermediary, at the same time it hinders and insulates a manufacturer from the host market. Therefore, direct exporting is advantageous for active overseas market penetration (Root, 1994).

4.2.2 Contractual Agreements

Licencing comes into place where firms (licensors) transfer their property rights or intangible assets to foreign companies (licensees) in return of pay. Property rights can be patents, know-how or trademarks amongst others. This transfer of intangible assets differentiates licencing from other contractual agreements where professional services such as management or technical support is arranged. Licences are often used to protect the domestic intangible assets from violations (Root, 1994).

The advantages of licensing are overcoming external factors such as import barriers, which drive up tariff costs, and facing lower political risks compared to investing equity. On the down side, choosing licensing as a market entry mode does not offer the same development process as exporting with having lack of control, although the initial start-up costs are low. A licensor remains dependant on its licensee's performance. For the manufacturing industry, licencing only comes into place where a manufacturing company possesses specific technological assets or trademarks, which a foreign company is showing attraction (Root, 1994).

International Franchising is more particular type of licencing, where a franchisor allows the franchisee not only to use patents or know-how (property rights), but also allows the franchisee to use the business systems and processes. It will be doing business under the same trade name by following the franchisor's way of working and policy. The franchisor will in return receive a one-time payment, royalties and name recognition. On the one hand, advantages of international franchising can be low political risks, quick market expansion with low equity investments. On the other hand, disadvantages are the franchisor's profit being dependent on the franchisee's turnover, not having full control over the franchisee's daily operations, higher likelihood of creating competitors and possibly having regulations by the government restricting certain parts of the franchise agreement (Root, 1994).

Franchising is very appealing for company's who do not have a product, which is suitable for exporting nor where the company has no intention of becoming a producer in the foreign market. The product and the production process of the good needs to be easily transferrable to the target market. Thus, products, which entail a production process with high managerial/technical expertise or come with high initial capital investments, are not the ideal candidates for this type of market entry mode. Contrary, popularity lies in consumer service products, where the production skill set is not depending on a high level of competence and where no large capital investment is needed. In a franchising system, franchisors offer support throughout the term based on the franchise agreement. Amongst others, support starts from training, management assistance, merchandising, supplying equipment and products (Root, 1994).

A mixture of licencing and equity entry modes is contract manufacturing. In contract manufacturing a company chooses to source its goods from a third-party manufacturer in the target or another foreign market and afterwards markets those goods in the targeted market itself (Root, 1994).

Contract manufacturing can bring various advantages to a firm. First, a firm does not need to commit a lot of resources, may it be related to management or financial investment. Second, this market entry decision (MED) allows for rapid entry into the foreign market. Third, due to not having ownership, it bypasses the issues, which arise through local ownership. Lastly, compared to classical licencing the host company still keeps the control over any activities related to marketing and sales. Often, entering a target market by contract manufacturing agreements are attractive when FDI into the target market is too costly or the market seems too small to risk high equity investment. Shifting over to the disadvantages of this market entry mode, similarities can be found to those of licencing. Finding a third-party manufacturer, which possesses all suitable technological assets can be difficult, while fulfilling all quality standards of the desired product. Another negative aspect is that having an independent manufacturer within the own supply chain can lead to a creation of a competitor in the future with building their knowledge (Root, 1994).

5 Exclusion criteria: product-specificity

Based on the nature of the products of the hypothetical German juice company and the characteristics of the above described market entry modes, this research paper will exclude the following entry modes: exporting, franchising and licencing.

Due to the product-specificity of the hypothetical company producing fresh juices and smoothies in Europe, having low shelf life with additional long lead times to ship products from Europe to Japan, the market entry option of exporting will be excluded. Also, various scholars (Taylor, Zou, &

Osland, 1998; Hennart, 1989) state that the difference in resource commitment and control between exporting and other entry modes is so wide that exporting cases should not be measured against the each other.

As stated above, for manufacturing firms licencing only applies as a market entry mode, where the firm possesses technological-specific assets or trademarks of interest. Both these assets are not possessed by the German juice company, as the production/bottling itself is conducted by a third party in Europe and with being a neophyte company in expanding outside of Europe the trademarks such as the brand name are not recognizable yet for any interested Japanese parties (Root, 1994).

As also mentioned above, physical products, which come with high initial investment are not ideal for franchising. Also, as the production in Europe is taking place through engaging purely with third-parties, franchising cannot be accomplished, as a franchisor needs to offer continuous support by supplying equipment, products amongst others. Thus, franchising will be excluded as a possibility of market entry mode (Root, 1994).

With contract manufacturing being a mix between licencing and equity entry modes (Root, 1994) and the hypothetical local German company already executing the business model of outsourced production and insourced sales and marketing activities, this research paper will treat this market entry mode same as setting up the same business model of owning a wholly owned subsidiary through greenfield investment in Japan whilst producing its products via contract manufacturing.

In summary, this research paper will investigate the best market entry mode for a hypothetical neophyte German juice company by comparing the options of forming a joint venture, acquiring a local firm or setting up a wholly owned subsidiary via greenfield investment.

6 Most studied entry mode literatures

Canabal and White (2008) have identified and summarized the most studied entry mode literatures, precisely 126 articles, by delving databases and article reference lists, which test entry mode decisions empirically. Based on the numbers of publications, it is apparent that the interest in this research has significantly risen between 1980 and 2006. These findings are substantiated on the basis of increase in technology, continuation of globalization and internationalization of multinational enterprises (MNE). With the rise in publications a greater availability of data is present for scholars (Canabal & White III, 2008).

The following subparagraphs 6.1, 6.2, 6.3, and 6.4 describe a few of the most research market entry theories and constructs.

Starting with the transaction cost theory, it is the most frequently exploited framework in market entry research, which analyses the effect of transaction costs on market entry choice. Following, the eclectic theory on the second place as the most commonly used theories in market entry research, is also called OLI-framework. Whereby, the theory explains that the choice on market entrance is dependent on three factors: ownership advantages, location advantage and internalization advantages. Next, the third most frequently researched construct is cultural distance, which compares the culture of both nations and exploring the distance among those. Another commonly applied framework is the institutional theory, which looks at the influencing institutional factors of the home and host country (Canabal & White III, 2008).

6.1 Transaction cost theory

The fundamental assumption of the transaction cost economics-based theory (TCE) is that the aim of companies is to minimise the sum of costs associated with entering into a new market (Williamson, 1985). The so-called transaction costs start from contractual negotiations over to post-venture performance monitoring. The TCE understands that firms use their own abilities and potentials internally, thus with a low cost, when measured against obtaining those from an external source. TCE rests up-on the thought that markets are characterized by competitiveness, but imperfection (Taylor, Zou, & Osland, 1998).

In the transaction cost framework, the efficiency of a foreign market entry is dependent on four control determinants, which are transaction-specific assets, external and internal uncertainty and the potential of free-riding (Anderson & Gatignon, 1986; Williamson, 1985).

Transaction-specific assets are human or physical contributions specialized to several users or uses. In cases where the competition in the market of the target country is high, avoiding human investment is advised. Contrary, if the competition is low, companies should invest onto those human or physical resources. In situations where there is volatility in the external environment, meaning external uncertainty, a market entry with a lower level of control is desirable. Thereby, investing resources and renegotiating agreements can be circumvented, leading to bypassing high transaction costs. However, sometimes because of these transaction-specific assets, companies have no choice than to invest those and deal with environmental shifts. In those cases, adversely a higher degree of control is preferable (Anderson & Gatignon, 1986).

Internal uncertainty arises in situations where a company cannot evaluate the performance of the foreign target company by its output. A higher control degree is desirable in order to overcome the uncertainty by monitoring inputs i.e. human behaviour, rather than the output measures. Good management plays an important role, however with lack of international experience, a manager likely will not possess enough know-how to overcome those internal uncertainties. A major driver for internal uncertainty is also socio-cultural distance, the cultural difference between the home and target country. It is often argued that the greater the difference between the two countries is, the less control is advisable. The more a firm moves away from culturally similar countries, the more control and investment gets reduced. Reasoning behind is that the transfer of management techniques and values is vastly difficult due to the dissimilarities in the foreign operating environment, accompanied by high information costs. Contrary, there are also arguments which recommend a high control mode in situations where the internal uncertaintly is high. The thoughts behind it are that firms force the home operating methods onto the foreign company due to lack of trust, which has the perks of training the transferred agent enourmously and building up valuable knowlede and thus creating a transaction-specific asset. Also, by having more control a firm does not experience the disadvantage it would do by operating the business from the distance. Thus, the TCE sugguest that both views on high and low control modes when entering into a country with high cultural distance are correct (Anderson & Gatignon, 1986; Root F., 1983; Goodnow & Hanz, 1972).

On the free-riding aspect, control issues can arise whenever one firm obtains benefits without carrying out any costs. To overcome these free-riding issues, a high degree of control is recommended. Free-riding problems can appear whenever a local company possesses a valuable brandname in which the foreign company can gain advantages and recognition by the expense of the counterpart. As the risk is high that the foreign party will use the brand name in an inconsistent manner, a higher level of control is advised the larger the brand name value is (Anderson & Gatignon, 1986).

Control plays a great importance in the market entry mode literature, since it regulates risk and return for the parties involved. Low control entry modes (e.g. licenses) decrease the risk of resource commitment, however simultaneously modulate the share of return. Contrasting, high control entry modes (e.g. acquisitions) increase risk and return. The decision on the level of control in market entrance determins to what degree a company will be succesful in the target market (Anderson & Gatignon, 1986).

Taylor, Zou and Osland's (1998) findings on market entry strategies of US and Japanese companies, based on the TCE predictions, were that validation from the US side was found, however not from the Japanese side. They suggest that other factors, especially cultural factors have to be taken into account in the transaction cost framework, which will be described more in detail in subparagraph 6.3, as these cultural differences can lead to a different perception of transaction costs. Also, although TCE being the most studied theory in MED, a lot of issues were pointed out regarding the application to non-Western, especially East Asian markets, due to the focus on institutional structures and the influence on transactional costs. Depending on the different structure of institutions in home and host countries, there is an association between transaction costs and partnering. E.g. a big difference is present in Japan with the keiretsu system, described in paragraph 2, where members of a supply chain aim to work closely together in order to help each other out. Thus, in the short run TC might not be the focus for the stakeholders (Taylor, Zou, & Osland, 1998; North, 1981; Granovetter, 1979).

Also Hill (1995) has questioned whether TCE can be applied to a Japanese MED case, based on the aspect that culture, which includes collectivism, trust and loyalty, does have an impact on the reduction of partnering costs. Hill contends that these cultural traits have formed a tightly networked business system, represented again by keiretsu, and a business environment characterized by a high degree of trust amongst business partners. This higher degree of trust can lead to a lower level of opportunistic behaviour, which is a key essential in the transaction cost framework, which again lowers partnering costs, thus has a positive impact on a lower control mode (Hill, 1995).

Gatignon and Anderson (1988) have also stated that TCE is not an ideal candidate due to the cultural aspect. When applying the TCE onto market entry research, opposing logical outcomes can be drawn, as the difference in culture can increase not only the transaction costs itself, however also the internalization costs. The increase in transaction costs arise through the difficulty of monitoring agents in the host country with the associated uncertainty, which points towards a higher degree of internalizing processes. Contrary, internalization costs can elevate due to arising issues of joining forces with overseas partners (Harzing, 2003).

Lu (2002) has additionally empirically proven that the institutional model, described in paragraph 6.4 has "significant explanatory power over and above the transaction cost model" (Lu, 2002).

6.2 OLI

The OLI framework, also going by the name eclectic paradigm, which has been published by Dunning (1988) is the second most studied framework in Canabal and White III's (2008) ranking of market entry modes. Dunning's OLI-framework, explaining FDI, proposes that companies base and determine their international activities on the availability of three determinants: ownership (O) advantages, location (L) advantages and internalization (I) advantages, hence OLI. The framework suggests that firms own or develop competitive ownership specific advantages in the home country, before transferring these to the host country via FDI, in order to establish themselves. These firm-specific advantages allow overcoming operating costs in the foreign market. Location-specific advantages reflect the benefits companies can attain by FDI. Location advantages are comprised of the availability and cost of resources such as cheap labour, raw materials and appealing tariffs in the host country. These variables flow into the overall market attractiveness for investing firms. Internalization advantages refer to the benefits a company receives through the reduction of transaction and coordination costs. This reduction can be achieved by adopting a foreign market efficiently and keeping high control (Brouthers, Brouthers, & Werner, 1999; Chowdhury, 2015; Dunning, 1988).

By including the above described OLI determinants, Dunning's eclectic framework is an improvement from the TCE approach in the MED model, as it not only includes the cost minimizing TCE approach (internalization), however also covers the aspects of location-specific factors, such as location differences, and ownership-specific factors, which can be non-transaction cost benefits (Brouthers, Brouthers, & Werner, 1999; Taylor, Zou, & Osland, 1998; Andersen, 1997).

Brouthers, Brouthers and Werner (1999) have found that the OLI framework is a suitable predictor of choosing the right market entry mode. The research outcomes were that companies which identify high internalization-, ownership- and location-specific advantages had the tendency to adopt a higher control level of entry mode, such as WOS and JVs. Contrary, companies with lower perception of those advantages preferred a market entry mode with lower control i.e. licensing and exporting (Brouthers, Brouthers, & Werner, 1999).

However, "it is also worth mentioning that an additional theory of entry mode choice, the OLI (ownership, location, internalization) perspective advocated by Dunning (1988) makes assumptions similar to TCE regarding transaction costs and internalization of operations. Hence, it is not a strong candidate for application to the Japanese case" (Taylor, Zou, & Osland, 1998).

6.3 Cultural distance

Foreign direct investments often come along with adaptation and integration of various cultures. Culture can be described as a collective mindset of a human group, which distinguishes one from the other, whereas this distinguishment is represented by the term cultural distance (CD). A country is usually characterized by the people sharing the same national culture (Wang & Schaan, 2008). When employing CD in the market entry research, it is based on the thoughts that market entry costs increase through the cultural dissimilarity between the host and home country, that the operational benefits decline and that the transfer of internal capabilities to the host market get hampered (Tihanyi, Griffith, & Russell, 2005).

In the internationalization process the chosen foreign market entry mode is one of the key strategic decision of a company (Samiee, 2013). Conducted studies in the past however faced criticism on various facets, showing conflicting findings and conclusion, especially on the aspect that CD impacting the choice of market entry mode (Harzing, 2003). Shenkar (2001) advocates that those conflicting findings and conclusion are due to hidden or false assumptions of CD.

Hofstede (1980) introduced five dimensions of culture in 1980, however interest in cultural distance arose eight years later once Kogut and Singh (1988) have quantified the construct 'CD' with a simple mathematical formula based on those five dimensions. Not many other constructs are more widely accepted in the business literature than CD. CD is used as a key variable in various business administrative studies, including strategy, organizational behaviour and human resources. However, especially in the research field of foreign direct investment, CD has had substantial impact. In order to recognize the enticement of the construct, it is helpful to know the essence of it (Shenkar, 2001). Kogut and Singh were able to turn something intangible, complex and difficult to scale into a measurable tangible tool, not only measuring the culture itself but the distance between those cultures (as cited in Shenkar, 2001).

The integration of culture has also been supported by Steenkamp's and Geyskens' (2012) meta-analysis on the role national culture plays in TCE, stating that culture does have a contingent effect on the market entry decision. Brouthers (2002) has also seen significant performance improvements when applying cultural and institutional variables onto the classical TCE model.

6.4 Institutional Theory

"The institutional theory examines how firms enter and operate in an institutional context defined by certain rules, norms, and values" ((Davis, Desai, & Francis, 2000, Meyer & Nguyen, 2005). In order to earn legitimacy in the target market, isomorphism plays a key role in the decision-making process. The central assumption in the theory is that companies and their managers are likely to base their market entry strategy and structures similar to those firms already existent in the host market (Yiu & Makino, 2002). The institutional perspective not only puts importance onto the institutional factors ingrained in the national settings, but also onto the cognitive constraints of the person making decisions when entering a new market. Simply put, institutional factors influence the international market entry decision (Yiu & Makino, 2002), whereas the institutional factors constitute of the three following components also called the three pillars of institutions: the regulative pillar, the normative pillar and the cognitive pillar (Pogrebnyakov & Maitland, 2011; Kostova & Roth, 2002; Xu & Shenkar, 2002).

The regulative pillar of institutions represents the constraints, which are formed by societal rules and legal systems, such as laws and governmental policies. The normative pillar of institutions reflects societal norms and ethnical systems. Lastly, the cognitive pillar of institutions constitutes of the cultural system and the shared cognitive categories of the people in a nation such as values and beliefs. Putting these pillars into an organizational change context, be it national or international, these three can be change drivers. From a regulatory view, changes in the legal system can be the main driver as they have to be abided. From a normative view, shifts in moral responsibilities and ethnical systems ought to lead to organizational changes. From a cognitive view, changes in the cultural systems, values and beliefs are needed to be wanted to be supported by organizations and their employees. Organizational changes reflecting cognitive shifts are manageable if internalized in order to incorporate those changes genuinely within the company (Pogrebnyakov & Maitland, 2011; Scott, 1995; Palthe, 2014).

There are two significant differences to the institutional theory when compared to the TCE. Firstly, the TCE only includes the regulatory component of the institution, neglecting the normative and cognitive pillar (Yiu & Makino, 2002). Secondly, whereas efficiency is the main determinant in the TC-model, the institutional theory has its focus on legitimacy (Scott, 1995; DiMaggio & Powell, 1983). Legitimacy is said to be achievable by adapting to other organizations in the host country, which yields more accessible transactions with each other (DiMaggio & Powell, 1983) building up success (Yiu & Makino, 2002).

Similar to Hofstede's (1980) cultural distance construct, Kostova (1999) has built a construct based on Scott (1995), which is the institutional distance representing the variance between two nation's institution. The proposition by Kostova (1999) is that the bigger the dissimilarity between institutions is the greater does the impediment become to gain legitimacy in the host market (local responsiveness) and to transfer home organization's strategic ways-of-working (global integration).

As stated in paragraph 6.4, when institutional variables were included in the TCE-model next cultural variables, Brouthers (2002) has seen significant performance improvements.

6.5 Exclusion criteria: unfit framework

Based on the findings in the paragraphs 6.1, 6.2, 6.3 and 6.4, the classical TCE model and the OLI-framework are not the most suitable candidates for the Japanese market. Therefore, this dissertation will deprive hypothesis based on the cultural distance construct and the institutional theory as a decision framework in order to find the most suitable market entry mode into Japan by the German juice company.

7 Cultural Effect on Market Entry Decision

The impact culture plays in the market entry decision can be divided into three sets. Firstly, Harzing (2003) has researched the effect of national cultural distance on entry mode choice and expressed that certain home/host characteristics have the same importance in MED when compared to national culture. Secondly, Hofstede (2010) is treating organizational culture separately from national culture, whereby other scholars assent to the view that past research has been focusing purely on the national cultural distance, however has been neglecting the role of organizational culture distance (Pothukuchi, Damanpour, Choi, Chen, & Park, 2002).

The following sub-paraphs 7.1, 7.2 and 7.3. will firstly be showing what dimensions there are to national culture, based on Hofstede's work. Thereafter, national culture distance and its effect on market entry modes will be explained followed by the influence of home characteristics. For each of the cultural impacts, hypothesis will be derived, based on former empirical findings. These hypotheses will then be used as a framework to narrow down the options of governance mode of the hypothetical German juice company entering into the Japanese market.

7.1 Hofstede's 5 dimensions

Hofstede (1980) treats cultures as "the collective programming of the mind which distinguishes the members of one human group from another… Culture is to a human collectivity what personality is to an individual" (p.21). He states that human are not born with cultural traits, however that those traits are learned. The learning of those societal norms are derived from the environment (Hofstede, Hofstede, & Minkov, 2010).

Many scholars have based their research on Hofstede's five dimensions: power distance, individualism versus collectivism, masculinity versus femininity, uncertainty avoidance and long- versus short-term orientation (Hofstede, Hofstede, & Minkov, 2010).

7.1.1 Power Distance

Power Distance represents the first dimension of five dimensions of national culture, whereas this dimension mirrors the issue of human inequality. Inequality can transpire in parts like wealth, power and prestige due to different nations putting different significances onto these areas (Hofstede, 1980).

Put into the business context, Power Distance represents the dependence relationship between the employer and the employee. The distance is measured by firstly the extend of the employee being afraid to disagree with their superiors, secondly by the perception of the leadership style of their managers be it autocratic, paternalistic or other and thirdly by the preference of having a superior with an autocratic or paternalistic decision-making approach or even a consultative style (Hofstede, Hofstede, & Minkov, 2010).

In countries where the power distance between the manager and the subordinates is small, meaning employees not being very anxious about their bosses and do not perceive the decision-making style as autocratic or paternalistic, a consultative style is favoured. Thus, small power distance results in limited dependency but interdependency amongst managers and their employees. Opposedly, in countries with high power distance employess, who are afraid of confrontations with their autocratic or paternalistic surperiors, are less likely to opt for a consultative decision-making style, thus prefer managers characterized by autocracity or paternalism. In these large power distance countries, the dependency between amonst managers and their employees is prominent (Hofstede, 2010).

Hofstede, Hofstede and Minkov (2010) explain power distance, built on the value system of the subordinates, as "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally" (p.61).

7.1.2 Individualism vs Collectivism

The second dimension of national culture by Hofstede is collectivism versus individualism. This dimension represents the difference in people perceiving themselves in society, be it as an individual, having loose ties amongst each other, or as a collectivist being part of a cohesive group (Hofstede, Hofstede, & Minkov, 2010).

Individualism is characterized by the expectation that everyone looks only after themselves and their close family members. At work, individualism is reflected through the cherishment of freedom, which leaves the individual to endorse an own style to the job. Challenging work is of great importance, as it is imperative for an individual to experience accomplishment. Lastly, personal time is essential for individuals in order to spent sufficient time alone or with the immediate family (Hofstede, Hofstede, & Minkov, 2010).

Collectivism contrary portrays a strong integration in a cohesive group throughout the whole life characterized by absolute loyalty. In work circumstances, collectivists favour other aspects to individuals. Beside working with group members, opportunities to acquire new skills through training are pivotal. Additionally, to those acquired skills, the use of those on the job are necessary as well. Lastly, the physical condition at work, such as work space and good lightning, play a vital role in the overall satisfaction (Hofstede, Hofstede, & Minkov, 2010).

When weighin collectivism and individualism against power distance, it stands out that countries with a large power distance are likely to be a collectivist and vice versa. Although there are exeptions, in cultures where a person is independent from groups, this independence will also reappear in the relationship between the powerful boss (Hofstede, Hofstede, & Minkov, 2010).

7.1.3 Masculinity vs feminity

The third dimension of national culture by Hofstede is masculinity versus femininity, which is derived from the societal gender roles, the behaviours associated with feminine or masculine culturally determined roles. Although, a female can behave in a masculine way and vice versa. This dimension is the only dimension out of five, where Hofstede found a significance difference between the answer given by male and female. Masculinity refers to the characteristics of being assertive, whereas femininity represents modesty. These characteristics are formed from the early days where females were taking care of the family, whilst the males were out hunting (Hofstede, Hofstede, & Minkov, Cultures and Organizations, 2010).

In a work environment masculinity can be indentified as putting importance onto certain work goals, such as aiming for opportunities with high earnings, aiming for recognition, having a satisfactory challenging role and having uprising career opportunities (Hofstede, Hofstede, & Minkov, 2010).

Opposingly, for the fiminine pole, importance lies in the work environment, where the work-related relationship with the manager is close, where the cooperation amongst the employees is good, where a long-term job security is given and lastly where the living area of the employee is adequate (Hofstede, Hofstede, & Minkov, 2010).

7.1.4 Uncertainty Avoidance

The fourth dimension of national culture by Hofstede is uncertainty avoidance. It is the extent to which a person is anxious of unfamiliar situations. The quintessence of uncertainty is a feeling based on experience. Uncertainty arises when people are confronted with unknown situation where thus anxiety arises. Depending on the culture, the anxiety, the degree of uncertainty towards the situation is larger or smaller. The uncertain feelings are adapted, obtained and learned through the transfer and reinforcement through the environment and its institutions. In order to deal with and avoid uncertainties driven by nature, behaviours of other humans and life itself, technology, laws and religion were formed (Hofstede, Hofstede, & Minkov, 2010).

Anxiety also arises, not only within the social level, but in the work environment. People with a high level of uncertainty generally experience more overall anxiety. Those people also prefer to be rule oriented by not to break any company rules to stem ambiguity. Additionally, those people will opt for long-term employment in order to avoid being confronted with a new unknown work environment (Hofstede, Hofstede, & Minkov, 2010).

7.1.5 Long-term vs short-term orientation

The fifth and final dimension of national culture by Hofstede is 'long-term versus short-term orientation'.

This dimension was added by Hofstede at a later stage, when the outcome of a Chinese survey correlated with Hofstede's dimensions, except one. Thus, Hofstede added a dimension, which distinguishes the way of thinking of East and West. This dimension investigates societal willingness to conquer barriers over time, which can either be preference towards quick results or towards long-lasting effects (Hofstede, Hofstede, & Minkov, 2010).

The long-term orientation in a culture is characterized by achieving substantial slow results through persistence, accepting that achieving business goals can take its time. Thrift and efforts stand first in line to form the future outcomes. Contrary, short-term orientation in a culture shows a focus onto the past and the present, needing to be rewarded with immidiate results for the efforts put in (Hofstede, Hofstede, & Minkov, 2010).

Once various influecial factors of national culture towards businesses have been described, paragraph 7.2 will thus investigate the impact of national culture on the market entry decision-making.

7.2 National Culture in Market Entry Decision

Increased cultural distance can lead to operational difficulties, which are normally obtained by the absence of the full understanding of the local market, starting from norms, values over to institutions. CD can also lead to a higher degree of uncertainties for managers when it comes to strategic decision-making (Tihanyi, Griffith, & Russell, 2005). Many scholars have investigated the impact of national culture on market entry decisions by foreign firms across industries and geographic locations (Kogut & Singh, 1988; Anand & Delios, 1997; Gatignon & Anderson, 1988; Padmanabhan & Cho, 1999). A lot of research papers in the past highlight that CD is positively related to a market entry mode with low level of control. However, not all findings indicated a postitive relationship. From these various researches a paradox has transpired, due to those contradicting empirical findings (Brouthers & Brouthers, 2001). On one hand, research indicates that high cultural distance leads to high control MED (Tsang, 2005; Hennart & Reddy, 1997), whereas on the other hand, high distance is associated with a preference for joint venture as a MEM (Anand & Delios, 1997; Gatignon & Anderson, 1988; Kogut & Singh, 1988). Therefore, it is fair to say that cultural distance can be linked to both WOS and JVs, which is represented by the term 'National Cultural Distance Paradox'. Brouthers and Brouthers (2001) investigated why such a paradox exists and what connects those contradictions. They found that investment risk in the target market played a key role in moderating the relationship between or influence of CD on market entry mode selection, guiding a decision-maker towards either a cooperative or wholly-owned mode depending on the degree of investment risk in the host market. Thus, decision-makers ought to include the target market investment risk in CD studies. Other meta-analyses also propose that moderators are a key player in the decision-making process. Besides country risks, the impact of CD on market entry mode choice can be moderated by previous experience (Padmanabhan & Cho, 2005) and home country characteristics (Tihanyi, Griffith, & Russell, 2005).

Due to the complexity in the non-linear relationship between CD and the degree of equity entry modes, the following paragraphs will investigate the effect of CD separately onto the each market entry modes by taking the moderating environmental circumstaces into account. Several hypothesis will then be derived, which will later on be assessed to narrow down the most suitable market entry mode for a hypothetical German juice company entering into the Japanese market.

7.2.1 The effect of National Culture on Joint Ventures

Often market entry mode decisions are based on the transaction cost theory. From the TCE-perspective, a market entry mode with a low level of control is preferable when the cultural distance between home and host market is great (Gatignon & Anderson, 1988). The larger the CD, the more uncertainty is apprehended by the home company, the more difficult it is to transfer local management-practices and the higher are the overall information costs. Additionally, the venture partner from the host country can yield corresponding local market knowledge and experience, which can surpass the impediments of being new, decrease information cost, decrease uncertainty perception, leading to overall reduced transaction costs. Acquiring a local firm of course also comes with the perks of accessing local knowledge, however from a TCE perspective this comes along with greater requiring costs, thus a JV is preferable (Wang & Schaan, 2008).

But, continuing from the above, costs associated with forming a JV might not entirely be captured by the TC approach. For instance, forming a JV with a culturally distant market also entails uncertainties in finding a suitable partner, sharing local knowledge with partners, sharing ownership and control, having conflicting interests with the partnering firm and facing partner opportunism. The higher the cultural distance is, the more uncertainties and costs are presumable to arise. Additionally, the acquisition of local knowledge and the transfer of own knowledge can be impeded by the degree of cultural distance. Thus, high cultural distance can lead to high joint venture costs, even greater than of a WOS (Wang & Schaan, 2008). Therefore, decision-makers need to weigh the benefits of forming a WOS with the uncertainties and risks caused by cultural distance (Brouthers & Brouthers, 2001).

As described above, a National Culture Distance Paradox arose due to scholars finding contradicting outcomes on either firm choosing a cooperative mode or a wholly-owned mode when entering into a culturally distant market. Brouthers and Brouther (2001) have empirically investigated why those discrepancies exist and shown that the present investment risks in the host market act as a moderator of cultural distance on the entry mode selection. Country risk is measured by social, economic, political situation in the host market plus the extend to how the investing firm perceives the political attitude towards an overseas company. An attractive market constitutes of cultural similarity, stability in regard to the economic, social, political environment (Brouthers K. D., 2002). In cases where the investment risk is perceived as low, managers opted for cooperative ventures and opposingly WOS in markets with high investment risk (Brouthers & Brouthers, 2001).

H1: High cultural distance alone suggests either a JV or WOS, however combined with a low investment risk environment, a firm will likely opt towards a JV.

Agarwal (1994) has also researched the interaction between country risk and CD, however could not stem any significant findings. This was based on two factors; first being influenced by an unbalances sample group and second having used an aggregated form of CD, whereas many scholars indicate that Hofstede's dimension impact CD independently and thus needed to be examined that way.

As stated in paragraph 4.1.2, it is crucial to choose a suitable local partner. On the basis on having chosen one, the upside to a joint venture has a wide range. Starting from having to invest less capital, being exposed to less risk, gaining local market knowledge through the target company and being able to reach out to already existing local customers and suppliers (Sirmon, Hitt, & Ireland, in press).

According to Root (1994), joint ventures are suitable for companies without any experience expanding abroad. The degree of how a person perceives risks, when confronted with new situations, can be reflected by Hofstede's dimension uncertainty avoidance (Hofstede, Hofstede, & Minkov, 2010).

H2: High cultural distance combined with low uncertainty avoidance of the investing manager and the need for local suppliers suggests a JV.

7.2.2 The effect of National Culture on WOS

In the following paragraph, the effect of national culture will be investigated, and hypothesis derived on firm choosing a WOS as a market entry mode.

In an JV, the greater the cultural distance is, the more costs and uncertainties are likely to arise, which are driven by search and negotiation costs, as well as lack of control and partner opportunism. Additionally, CD can lead to an impediment of knowledge-transfer from home to host firm and also to a barrier to gain local knowledge from the target company once a JV is set up. Thus, the total cost of a joint venture can become greater the costs of forming a WOS (Wang & Schaan, 2008).

H3: High cultural distance and the need of knowledge-transfer suggests a WOS over a JV.

Acquisition are becoming more and more popular as an international market entry mode, partially due to the fact that the investing firm gets to keep control (Hitt, Franklin, & Zhu, 2006). Other main incentives for a company to form a WOS are three-fold, being influenced by firm-, industry- and country-specific factors. The influences starting from diversification of a firm's product portfolio (Shimizu, Hitt, Vaidyanath, & Pisano, 2004), access to technological assets of the target firm, overcoming governmental restrictions, market growth and cultural diversity (Hitt, Franklin, & Zhu, 2006). Other advantages are the acquisition and quick absorption of cultural, institutional and market knowledge (Vermeulen & Barkema, 2001), as well as a quick ROI by acquiring an up-and-running business (Root, 1994).

However, with the existence of CD and the collision of cultures, the above stated knowledge-absorption and transfer can be hindered (Vermeulen & Barkema, 2001; Zahra, Ireland, & Hitt, 2000), be it through language barriers or different cultural behaviours. Also, Bhagat et al. (2002) stated that knowledge-transfer can be hindered by the existense of cultural and institutional distance.

The first important part in the acquisition process is to find and select a suitable partner (Hitt, Franklin, & Zhu, 2006). Having found a suitable firm, the integration process plays the most important role in the success of an acquisition, with strongly contributing to failure if not implemented correctly. The contributors to failure being differences in culture and systems. Therefore, enormous importance lies in coordinating and transfering knowledge to get the greatest benefit out of the cross-border acquisition deal (Hitt, Franklin, & Zhu, 2006). As the target firm selection and the integration process comes with high time and energy investment, some firms opt for a market entry via Greenfield Investment (Hitt, Franklin, & Zhu, 2006).

H4: High cultural distance and the need of high degree knowledge-transfer suggests a Greenfield investment over an Acquisition.

A Greenfield investment is conducted without any knowledge of the local market and without any help from local partners. Therefore, lack of knowledge has to be filled by learning from mistakes. The postive outcome of this is the build-up of tacid knowledge, which can be used in any other future market entries, although associated with high risks and costs (Hitt, Franklin, & Zhu, 2006).

H5: High cultural distance and long-term orientation of a management suggests a Greenfield investment.

7.3 Home country characteristics in Market Entry Decision

Not only cultural distance among two nations, but also the national origin with its national character has a profound impact on international market entry decisions (Hennart & Larimo, 1998). Based on the thought that companies are built upon the influences by the home country's environment, it is fair to say that a national culture has an influence on shaping a company's culture (Laurent, 1983). Thus, a company based in a home country with high power distance is likely to exert autocracy, which leads to an aversion towards sharing control, which again points towards a preference for WOS over alliances (Erramilli, 1996).

H6: The higher the power distance of the home company, the less likely the firm will enter via a JV.

Also, companies who's home environment is characterised by a high level of uncertainty avoidance are more inclined to prefer WOS over shared ownership, due to the fact that dealing with new foreign partners inherit a high degree of uncertainty (Erramilli, 1996).

The above aspect is relfected in Hypothesis 2, therefore no additional hypothesis will be derived.

8 Institutional Effect on Market Entry Decision

This paragraph will be examining the institutional pillars, described in chapter 6.4, and their effect on market entry decision-making, whilst deriving hypothesis in order to support the goal of this dissertation of narrowing down and finding the most suitable MEM for the hypothetical German juice company expanding into the Japanese market.

If a company is facing governmental regulatory restrictions in the host market to adopt certain market entry strategies, those regulations always overrule the considered entry mode based on a theoretical preference (Brouthers, 2002). Legal restrictions often cause the set of available MEMs to shrink in cases such as prohibiting the formation of WOS (Gatignon & Anderson, 1988).

Hypothesis 7: Regulatory restrictions imposed by the host government on the equity level of foreign firms narrow down the set of available MEMs.

However contrary, if a host market is characterized as being open towards FDI, equity investment is perceived as a very attractive option for foreign firms (Dunning, 1988).

A key assumption in the institutional theory is that when firms enter into foreign markets, it needs to attain legitimacy. And the more distant the institution, meaning the larger the institutional distance, the tougher it is to gain legitimacy (Kostova & Zaheer, 1999; Xu, Pan, & Beamish, 2004). Zaheer (1995) states that the competitive disadvantage and thus costs an overseas firm incurs over a local company is caused by simply being foreign. This competitive disadvantage can range from the knowledge and information the local firm possesses of the market environment, economy over to laws (Hymer, 1976). The additionally incurred costs can be described as the 'liability of foreignness' (Zaheer, 1995).

Xu, Pan, & Beamish (2004) found that companies who enter into a foreign market with a large regulatory distance lean towards favouring JVs over WOSs and vice versa. When a firm has decided to enter an institutionally distant market, accepting the dissimilarity and conformity to rules and regulations of the host institution, it opts towards a shared-ownership in order to decrease institutional problems by having less control and less resource commitment (Hitt, Hoskisson, & Kim, 1997; Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986). In order to overcome the liability of foreignness, companies lean towards choosing a market entry strategy with less equity ownership in exchange for local knowledge (Makino & Delios, 1996). Zaheer and Masakowski (1997) have empirically proven that in the finished goods market overseas companies are expected to be less profitable and have a smaller chance of surviving when compared to local companies.

JVs were also favoured over WOS in cases where the normative distance is large. Putting regulatory differences aside, the liability of foreignness driven by normative factors can be reduced by having less equity and control, lowering the intraorganizational conflicts (Xu & Shenkar, 2002).

Xu and Shenkar (2002) have additionally researched the impact of the three pillars onto greenfield investments compared to acquisitions. Greenfield investments were chosen, the higher the institutional distance was. Reasoning behind is the higher liability of foreignness driven by difficulties of implementing organizational structures into the acquired firm and inconsistent information flow.

Hypothesis 8: Large regulatory distances suggest a JV above a WOS, vice versa.

Hypothesis 9: Large normative distances suggest a JV above a WOS, vice versa.

Hypothesis 10: To overcome intraorganizational conflicts, among high control modes, large normative and cognitive distances suggest a Greenfield investment over Acquisitions.

In order to find answers and support for the 11 hypothesis listed in chapter 7 and 8, the following chapters and paragraphs will investigate the similarities and dissimilarities of the German and Japanese culture as well as institutions.

9 Cultural characteristics of Japan and Germany

Paragraph 9.1 presents the cultural distance between Japan and Germany using Hofstede's index. Following in paragraph 9.2, the differences between the countries will be compared.

9.1 Cultural distance between Japan and Germany

Figure 2 shows the Power Distance index for Japan and Germany. It is visible that the Power Distance in Japan is considerably higher when compared to Germany.

Germany is characterized with a very low Power Distance, representing the high decentralization and the preference of co-determination between management and employees. German employees favour interactive ways of working, communicating thoughts in meetings and disliking a high degree of management control (Hofstede Insights, 2018).

Japan hits an intermediate rating with 54 points, making it just into being a hierarchical society. Compared to other Asian nations, Japan is one of the least hierarchical countries, however foreign firms to experience hierarchy through the long and slow process of decision-making in Japan. But, this slow process also reflects that there are various decision-makers throughout the hierarchy compared to autonomous decision-making. Additionally, Japan is characterized as a meritocratic nation, cherishing the ability and possibility of rising to the top via talent than class privilege. However, the male-domination is still persistent (Hofstede Insights, 2018).

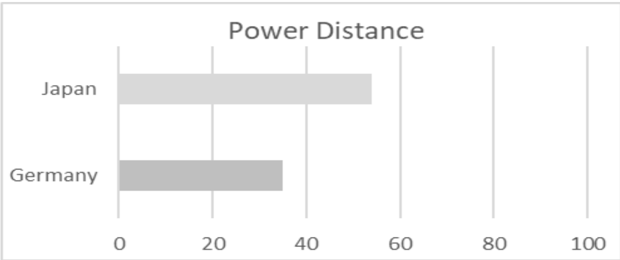

Figure 2 - Power Distance between Japan and Germany. Adapted from "Hofstede Insights", by Hofstede, 2018. Retrieved June 13, 2018, from https://www.hofstede-insights.com/country-comparison/germany,japan/. Copyright 2018 by Geert Hofstede BV

Moving on to the index Individualism (Figure 3), which represents the level of interdependence people within a nation preserve, the German score is greatly higher than the Japanese score, as shown in Figure 3. Broadly said, the high German score indicates an 'I' individualist nation, whereas the lower Japanese points point towards a 'We' collectivist nation (Hofstede Insights, 2018).

In Germany, self-actualization is a key focus in society. Loyalties of Germans is represented by the personal choice of people and obligations, which is mirrored in the contract between a company and its employees. In regard to communication, Germany is one of the most direct nation in the world, which might have a negative connotation, however it gives the correspondent the possibility to gain learnings from mistakes (Hofstede Insights, 2018).

Japan attains 46 points for Individualism. Although Japan has a lot of collectivistic characteristics such as prioritising group harmony above personal thoughts and opinions, the nation is not very high up in being a collectivistic nation compared to other Asian nations. One of the drivers being that Japans family systems are not as collectivistic as Korea or China, but more prone by paternalistic characteristics. Contrary looking at company loyalty, Japanese people are more committed to their firms long-term. But again, this choice is then made by an individualist. Thus, depending on the perspective, Japan can be described as a collectivist nation from Westerns, and as an individualist country from other Asian nations (Hofstede Insights, 2018).

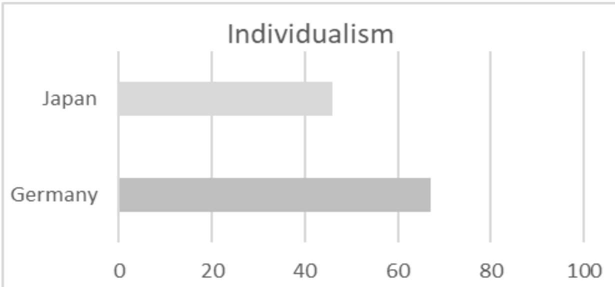

Figure 3 - Individualism between Japan and Germany. Adapted from "Hofstede Insights", by Hofstede, 2018. Retrieved June 13, 2018, from https://www.hofstede-insights.com/country-comparison/germany,japan/. Copyright 2018 by Geert Hofstede BV

The Masculinity dimension (Figure 4) from Hofstede serves as an indicator of how a society is prone to being motivated by competition and achievements by being superior to other people. Contrary, a low degree of Masculinity is described by Femininity. The motivator in a feminine society lies is the quality of life and cherishing others (Hofstede Insights, 2018).

Germany scores 66 points and therefor can be treated as a masculine society, where good performance plays a key role. Masculinity can be found in such ways that people redeem satisfaction by tasks and managers being characterised by assertiveness and decisiveness (Hofstede Insights, 2018).

Japan's score with 95 points represents one of the most masculine nations in the world. When the masculine aspect is however combined with their

Collectivism, assertiveness and decisiveness cannot be found in an individual. But what can be found is competition amongst groups, be it in social or corporate circumstances. Masculinity can also be detected in Japan through their drive in excelling and perfecting any goods and services and also in their workaholism (Hofstede Insights, 2018).

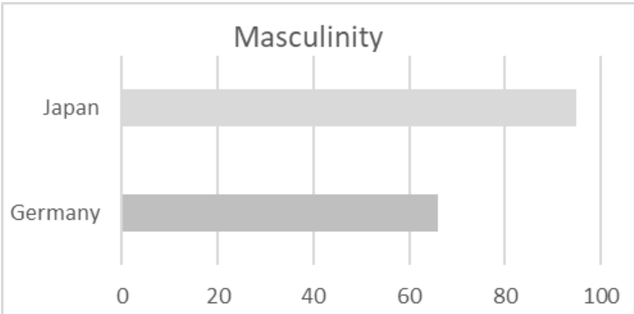

Figure 4 -Masculinity between Japan and Germany. Adapted from "Hofstede Insights", by Hofstede, 2018. Retrieved June 13, 2018, from https://www.hofstede-insights.com/country-comparison/germany,japan/. Copyright 2018 by Geert Hofstede BV

The scale of Uncertainty Avoidance (Figure 5) describes how a society deals with apprehension driven by ambiguity (Hofstede Insights, 2018).

With 65 points, Germany belongs to one of the more cautious countries towards uncertainties by approaching new situations through deductive measures. A lot of detailed thought- and planning-processes go into the decision-making. When the higher Uncertainty Avoidance dimension is combined with the low German Power Distance, the own autonomous decision of the employee with high uncertainty will be compensated by research and competence (Hofstede Insights, 2018).

Japan is known for being one of the leading societies in regards to uncertainty avoidant in the world. This aspect has not only emerged through the constant exposure to natural disaster but every other circumstance, where preparation and predictability is key. In the work environment risk assessments and feasibility examinations are conducted prior project sign-offs and any other decisions. Thus, the realization of changes are hard to come by in the Japanese society with a high level of Uncertainty Avoidance (Hofstede Insights, 2018).

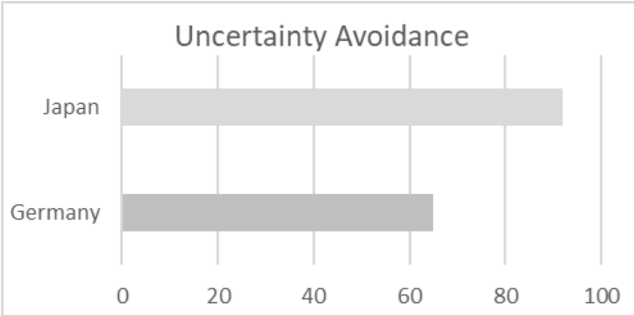

Figure 5 - Uncertainty Avoidance between Japan and Germany. Adapted from "Hofstede Insights", by Hofstede, 2018. Re-trieved June 13, 2018, from https://www.hofstede-insights.com/country-comparison/germany,japan/. Copyright 2018 by Geert Hofstede BV

The 'Long-term Orientation' dimension (Figure 6) deals with how nations handle implications from the past whilst facing challenging situations in the now and in the future. The variation in nations of either being short-term or long-term orientated extrapolates from the difference in prioritising those existential goals. Short-term orientated countries lean towards honouring traditions and norms whilst being suspicious towards changes. Contrary, long-term orientated countries have an inclination towards pragmatism, focusing on the preparation towards what is to come in the future (Hofstede Insights, 2018).

Germany can be described as a pragmatic nation with a score of 83 points along the Long-term Orientation scale. Pragmatic women and men have the idea that truth dependents on situations, contexts and time. They are capable to transform traditions to altered conditions with ease and have a keen tendency towards investments and determination in attaining results (Hofstede Insights, 2018).

With 88 points along the scale, Japan is one of the most long-term orientated countries. Japanese people perceive their own lives as a fracture in a long time-span within humankind. In the corporate world of the Japanese society, long-term orientation can be depicted through the strong investment in resource and development throughout any economic state and through the focus on stable growth than short-term profit in order to bring durability for firms. The key focus is to turn a company into something long-lasting instead of short-focused profits (Hofstede Insights, 2018).

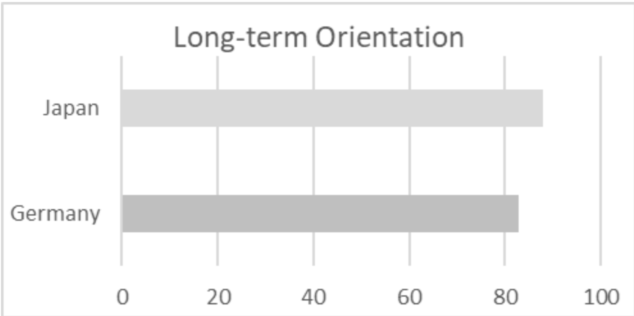

Figure 6 - Long-term orientation between Japan and Germany. Adapted from “Hofstede Insights”, by Hofstede, 2018. Re-trieved June 13, 2018, from https://www.hofstede-insights.com/country-comparison/germany,japan/. Copyright 2018 by Geert Hofstede BV

9.2 Comparison between Germany and Japan

Looking at the various cultural characteristic indicators by Hofstede, Japan and Germany have a large distance between each other. Starting with Power Distance, Germany cherishes decentralization and co-determination in regard to decisions, whereas Japan is still ranked amongst hierarchical countries. The decision-making process is still perceived very long by foreigners, having to go through every layer of the hierarchical firm.

Also, when comparing the two nations from an individualistic or collectivistic perspective, many differences can be found. The individualistic German nation is focused on themselves, focused of self-actualization. Loyalty also lies in their personal choice of their surrounding peers and obligations. Japan contrary is more prone to be a collectivistic nation, focusing on group harmony above personal needs and thoughts. In the corporate world, loyalty is expressed through long-term commitments.

Whilst Germany being a masculine country, there is still a large gap compared to the Masculinity of the Japanese society. In a work environment, Germans are motivated through tasks and managers being assertive and decisive. This aspect is not necessarily seen in the Japanese society when the Collectivism aspect is incorporated, however the drive for perfection is strongly visible in the workaholism and the preciseness in flawless goods and services, which bodes well with the customer-orientation.

Both Germany and Japan are characterized with a higher degree of Uncertainty Avoidance, whereas Japan being on the top end of the scale. Thinking and planning things through are highly important when it comes to decision-making. The difference however is that in Germany Uncertainty Avoidance is reflected through an individual's thorough research and competence on a lower level, whereas in Japan risk assessment and sign-offs have to go through a firm's hierarchy, which makes it difficult for changes to come by.

The only similar score in the cultural distance index Germany and Japan achieves on Long-Term Orientation. Both nations are on the higher end of the scale, indicating pragmatic thinking and an openness towards changes.

Whilst both Germany and Japan are not reluctant to shape the current state in order to prepare for future changes, on all other cultural aspects defined by Hofstede, there are significant differences between both cultures. Therefore, it is fair to say that the cultural distance between Germany and Japan is large.

10 Institutional characteristics of Japan and Germany

Paragraph 10.1 introduced the economic history and current state in Japan. Thereafter the political situation is described, followed by the legal structure. Paragraph 10.2 introduces the World Governance Indicators provided by the World Bank, which can be used to measure institutional distance. Lastly, paragraph 10.3 then compares the institutions of both nations, Germany and Japan.

10.1 Japan's institutional evolvement

The reason for Japan being a wealthy nation now is driven by continuous economic development. The majority of times, economic development is represented by the start of the industrialization. In Japan's case, this would constitute to the year of 1853, where Japan was demanded to open the economy to the West by Commodore Perry, sent by the former U.S. president. Growth has indeed taken place from 1868-1912 (Meiji period), however historians also point out this growth was only possible with having centuries of autocratic governance structure. In 1853, Japan was characterized as an economically backward country, however compared to other countries, the only aspect where development was lacking compared to Europe was the technological sector (Flath, 2000). After Japan opened its door for international trade in 1854, a political crisis arose, which let to a revolution in 1868 where the then present political system was replaced through a restoration. With this change the Japanese economy changed and developed year on year. Free trade and movement was allowed between the prefectures, leading to an economically integrated nation. Additionally, markets were freed of govermental control. During the 19th century, Japan built a central bank and had gold and silver currency convertible in order to mitigate risks to trade with foreigners. By the beginning of the 20th century, Japan had established commercial banks, joint-stock firms and further businesses slowly replacing argriculture. With the growth Japan was experiencing, Japan started to partially concentrate on foreign conquests. Throughout World War I, Japan took advantage of the economic boost from the interest rates and companies were able to expand out of the mining and banking sectore and entered the shipbuilding and steel industry. World War II represents a big dip in Japan's economy and GDP. However, after 1945 Japan experienced a steep economical rise, which is named the 'Japanese miracle'. Post-war, the U.S. occupied Japan and implemented economic reforms including the ban of monopolization, labor legislations, introducing unionization of labour and standard terms of employment. These laws and regulations are still in tact to-date. The reforms are also labelled as 'democratization'. The steep economical rise after the war especially came into place in 1949, when the economy was dismantled of governmental control. The economic rise lasted until mid-70s when it reached a steady-state (Flath, 2000).

As mentioned in the introduction, the IFDI in Japan is relatively low, compared to other nations. There are two factors contributing to this. Fristly, the Japanese government restricted IFDI via policies for 30 years until 1980. Secondly, language barriers and cultural differences make it harder and costly for foreign entrants. Scholars have two-fold opinions about the reason behind low IFDI into Japan after 1980. One being the cultural differences continued to exisit after the FDI was lifted, however contrary other researchers underline the fact that although regulations on FDI were lifted, restrictions still continued to exist regarding mergers and acquisitions (Flath, 2000). Once prime minister Shinzo Abe was elected, he issued a revitalization strategy in order to promote IFDI and has set up formal programs back in 2016. This revitalizatoin strategy is one of the components in order to boost the Japanese economy, which is currently facing growth difficulties with aging population and diminishing human resources (ITA, 2017).

In 2014, a 'FDI Promotion Council' was founded and to-date is continuously improving the Japanese FDI environment. Back in 2016, the Council advocated a reform to make the market entry for foreing entities easier by introducing simplifications of regulations, expansion of document translation into English and centralizing the processes for registering businesses. Nowadays, there is a centralized single office in Tokyo where foreign investors can get access to all necessary information and beraucratic documents. This centralized construct is managed by the Japan External Trade Organization (JETRO) and the Ministry of Economy, Trade and Industry (METI) (ITA, 2017). JETRO supports foreing businesses in setting up their foreign entity by giving support on visas, taxes, recruitment, trademarks, labour regulation and importantly company registration. JETRO states that the establishment of a foreign brach takes a month, whereas setting up a subsidiary two months (ITA, 2017).

Japan has gradually decreased the governmental regulations on IFDI. Only when foreign firms are entering into a designated sector with greater than 10% share, the company needs to receive a prior approval from the Japanese Ministry of Finance, with the designated sectors being 'agriculture, aerospace, forestry, petroleum, electric/gas/water utilities, telecommunications, and leather manufacturing' (ITA, 2017).

Foreign firms, which enter the Japanese market via a JV or an acquisition will encounter more difficulties, which are more of a business practice nature than from a regulatory nature. Besides cultural and language differences, the most prevailing factors coming from an insular business culture with the presence of alliances between firms and and intertwined supplier networks reducing the risk of foreign competitors (ITA, 2017).

Compared to other countries, Japan has a very low unemployment rate. There are various factors contributing to this, with the lifetime employment system being the most vital one. Japanese companies have a specific pay-schemes in oder to retain staff by discouraging quitting. Compared to the U.S., Japanese employees go thorugh five companies throughout their lifetime, whereas Americans through eleven. The second factor contributing to the low unemployment rate, similar to many nations, is the minimum wage law.

After the Meiji restoration, the government in Japan worked towards a legal system similar to the Western system. Reason being that the back then imposed treaties were unfair. Therefore, to overcome this burden the only outcome was to adopt a Western system. Japan has then travelled through Europe and has conclusively decided on the adaptation of the German civil law system. After the second World War, Japan was influenced heaviliy by the American legal system. Thus, today the overall Japanese legal system can be discribed as a hybrid between the German civil law and the American common law, which lie on top of the Japanese cultural values existent for centuries in Japan (Hahn, 1984).

10.2 World Bank Governance Indicator

In order to operationalize the construct of institutional distance, more specifically the regulatory and normative distance, the Worldwide Governance Indicator (WGI) provided by the World Bank Group will be used. The Worldbank defines governance as “the traditions and institutions by which authority in a country is exercised” (Kaufmann, Kraay, & Mastruzzi, 2010). The WGI is based on hundreds of aggregated individual variables, reflecting data sets from numerous sectors. WGI was developed in order to show the governance across various countries. Same to Du’s (2009) approach, the normative and cognitive pillar will be grouped together due to similarity.

From a regulatory point of view, there are three indicators: the ‘Government Effectiveness’, the ‘Regulatory Quality’ and the ‘Rule of Law’. The Government Effectiveness represents the public service and policy formulation condition. The Regulatory Quality indicator represents the competence and capability of the government in order to boost the development of the private sector. Lastly, the Rule of Law portrays the degree of how agents accept and tolerate the societal rules such as abiding property rights (Kaufmann, Kraay, & Mastruzzi, 2010).

From a normative point of view, there are also three indicators: the 'Voice and Accountability', the 'Quality Political Stability and Absense of Violence' and the 'Control of Corruption'. The Voice and Accountabiliy depicts the degree within a country of free expression, associaciation and media and importantly the degree of allowed participation to vote for government. The Political Stability indicator represents the prospects of the government being destabilized via terrorism or any other violence. Lastly, Control of Corruption represents the level of private gains within a society through public empowerment such as corruption, but also elites (Kaufmann, Kraay, & Mastruzzi, 2010).

Figure 7 below displays the WGI of Japan and Germany of the year 2016, the lastest available data. The top three indicators display the regulatory indicators, whereas the bottom three indicators present the normative ones.

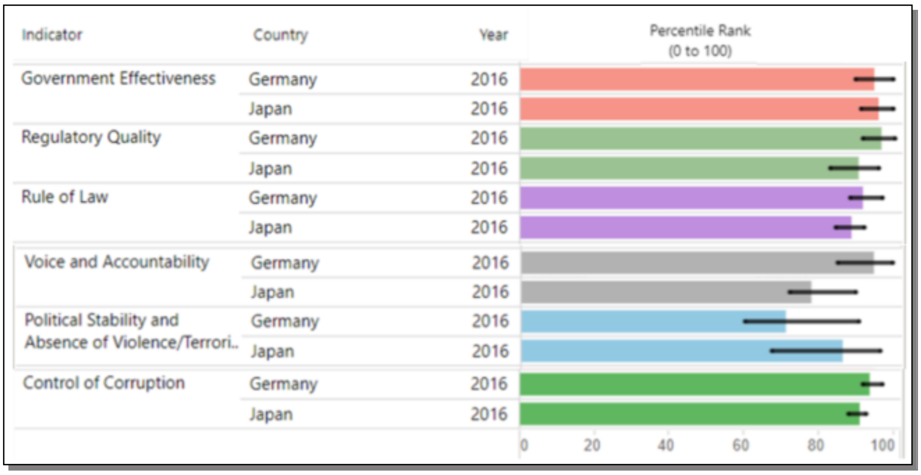

Figure 7 - Institutional Governance Indicators. Adapted from "Worldwide Governance Indica-tors", by the World Bank Group, 2018. Retrieved June 13, 2018, fromhttps://databank.worldbank.org/data/reports.aspx?source=worldwide-governance-indicators. Copyright 2018b

10.3 Institutional Distance between Japan and Germany

When looking at the live regulatory setting in the Japanese environment, it stands out that the regulations on IFDI has subsided within the last decades. Today, there are not many impediments on the market entry mode foreign firms chooses, with an exeption on certain sectors, which however is not applicable on the manufacturing juice sector of the case chosen in this dissertation. Therefore, there are no restrictions to the decision on how to enter into the Japanese market.

The legal environement in Japan has changed significantly since the Meiji restoration, taking on characteristics of the current US and especially Germany legislation. Hence, from the legal system point of view the distance between Germany and Japan is minimal.

Using the World Governance Indicators, shown in figure 7, looking at 'Governance Effectiveness' the distance between Germany and Japan is almost non-existent. Also, comparing the two nations from a 'Regulatory Quality' and 'Rule of Law' aspect, the deviations are not significant.

In conclusion, it is fair to say that the insititional distance between Germany and Japan from the perspective of the regulatory pillar is nominal.

Moving onto the normative/cognitive pillar, analyzing the data of the World Governance Indicators, it is apparent that there are significant difference between the German and Japanese nation. Although the 'Control of Corruption' does not portray any signifiant disparities, the sizeable gap for the 'Voice of Accountability' and 'Quality Political Stability and Absense of Violence' indicators point towards a striking difference in the normative and cognitive environment when comparing the national characteristics.

Therefore, in contrast to the regulatory pillar, certainly there are variances between Germany and Japan. Additionally, looking at Hofstede's cultural dimension, except the 'Long-term Orientation' there are significant differences when it comes to cultural aspects impacting the normative and cognitive pillar.

11 Results

The following two paragraphs 11.1 and 11.2 will firstly show the results of the derived hypothesis and secondly conclude what the best market entry mode is for a German Juice company entering into the Japanese market.

11.1 Results from Hypothesis

Whereas the hypothesis derived in this dissertation are built on empirically proven research articles, the strategy of expanding from Germany into the Japanese market is purely based on a hypothetical company. Therefore, using theoretical evidence, the below results of the derived hypothesis will act as a recommendation for any existent companies planning to enter into Japan.

Paragraph 9.1 and 9.2 examines the cultural distance score by Hofstede and concludes that the cultural distance between Japan and Germany is high, except the characteristic of being long-term orientated. Thus, the following recommendations derived from the hypothesis stated in paragraph 7.2 will take into account that CD is high.

Country risks are measured by social, economic and political circumstances of a host nation. Therefore, a market is perceived as attractive when the cultures are similar and the environment is stable. Going back to the World Governance Indicators (paragraph 10.2), two indices stand out to measure the investment risk suitably. For both indicators, 'Quality Political Stability and Absense of Violence' and the 'Control of Corruption', Japan score very high points, which imply low investment risk.

Recommendation 1: High cultural distance alone suggests either a JV or WOS, however combining the low investment risk in Japan, choosing a JV as a MEM is recommended.

Germany as the investing firm, with individual managers being the decision-maker, scores a high score on the Uncertainty Avoidance scale.

Recommendation 2: High cultural distance combined with the high uncertainty avoidance of the German manager does not suggest a JV as a MEM.

With being a neophyte company in regards to entering into the Japanese or Asian market and having outsourced all production facilities, there are not intangible assets, accept sales and marketing knowledge which could be transferred to the Japanese market. With Japan being a culturally distant market, home sales and marketing processes are unlikely to be transferrable and applicable. Therefore, Hypothesis 3 and 4 have to be discarded.

Similar to Japan, Germany scores extremely high points on the 'Long-term Orientation' scale by Hofstede.

Recommendation 5: The high cultural disctance between Germany and Japan and the long-term orientation of the German decision-maker recommends a Greenfield investment as a MEM, among high control modes.

Germany as the investing firm, with managers as the decision-makers, are characterized with a low level of power distance.

Recommendation 6: The low power distance of the German investing firm does not decrease the likelihood of choosing a JV as a MEM.

Moving on to the hypothesis derived in regard to the institutional theory, as stated in paragraph 10, there are no restrictions on the manufacturing consumer products sector in Japan in regard to IFDI, therefore hypothesis 8 can be disproven.

Recommendation 7: The set of available MEMs is not narrowed down by regulatory restrictions in Japan.

As drawn out in paragraph 10, looking at how the current Japanese legal system has been extrapolated from the German legal system and additionally comparing the regulatory indicators from the World Governance Index, it is apparent that the regulatory difference between Germany and Japan is small.

Recommendation 8: The small regulatory distance between Germany and Japan proposes a WOS as a market entry mode.

When the World Government Indicators were compared from the normative perspective, it is apparent that there are distinct differences between the two countries.

Recommendation 9: The large normative distance between Germany and Japan recommends JV as a market entry mode.

Recommendation 10: To overcome intraorganizational conflicts, among high control modes, the large normative and cognitive distance between Germany and Japan proposes a Greenfield investment.

11.2 Result Summary

Summarizing the recommendations, the following will draw a conclusion of what is the best market entry mode.

From a cultural distance point of view, comparing the reccomendations, a mixed outcome is visible. Therefore, a different importance will be put onto the recommendations. Recommendation 2 to 6 are based on the characteristical traits of the German decision-maker who determines what market entry mode will be chosen. Recommendation 1 does take cultural aspects into account, however the final outcome is based on the investment risk in Japan and not on the cultural traits of the person making the ultimate entry decision. Thus, Recommendation 2-6 will outweigh Recommendation 1. The cultural traints of a German decision-maker being very uncertainty avoidand and long-term orientated suggest a Greenfield investment as a market entry strategy. Although the low power distance does not decrease the likelihood of choosing a JV, simultaneously it also does not decrease the likelihood of a WOS.

From a institutional perspective, non-existent legal restriction do not minimize the set of market entry modes. Reccomendatoin 9 suggests a JV as a MEM. However, with knowing that the cultural distance between Germany and Japan is large and the reccomendatoin does not incorporate cognitive aspects, therefore it will be treated as having less say compared to the other derivers. Thus, from an institutional theory point of view, a WOS is favoured with a small regulatory distance and within Wholly Owned Subsidiaries Greenfield investments are suggested based on the large cognitive and normative distance between Germany and Japan.

In summary, from a cultural framework and institutional theory perspective the best market entry mode for a German juice company to enter into the Japanese market is via Greenfield investment.

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13 Appendix – German Abstract

Waehrend der letzten Jahrzehnte wurde durch Deregulierung die auslaendische Direktinvestition nach Japan mehr und mehr gefoerdert, um die oertliche Wirtschaft anzukurbeln. Ein Anstieg war sichtbar, allerdings im Vergleich zu anderen entwickelten Laendern, ist die auslaendische Direktinvestition in Japan immer noch gering. Der japanische Markt besitzt spezifische Investitionsbarrieren, die schwer zu durchbrechen sind aufgrund von starken kulturellen Unterschieden bis hin zu kartell-artigen Marktbedingungen. Waehrend viele Marktbarrieren beruecksichtigt werden, nutzt diese Masterarbeit das empirisch belegte ‚kulturelle Distanz' Modell und die ‚institutionelle Theorie' um eine passende Markteintrittsstrategie zu finden. Die Modelle werden auf einen hypothetischen Fall angewendet, wo eine deutsche Getraenkefirma in den japanischen Markt expandiert. Fuer Langzeiterfolg empfehlen die Ergebnisse der Masterarbeit die Greenfield-Investition. Obwohl die Modelle auf einen hypothetischen Fall angewedet werden, ist das Fazit des Greenfield-Investments gleichfalls auf Firmen anzuwenden die im gleichen Sektor agieren und in der Zukunft planen nach Japan zu expandieren.