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List of abbreviations

CC	Cultural context
CEO	Chief executive officer
e.g.	For example
EJV	Equity joint venture
et al.	And others
etc.	And other similar things
EU	European Union
FDI	Foreign direct investment
G20	The group of twenty
GDP	Gross domestic product
H	Hypothesis
I&A	Integration and adaptation
IBM	International business machines, a large multinational company based in the U.S.
IC	Industrial concentration
IM	Internationalization model
INSEAD	Institut Européen d'Administration des Affaires
IPR (IP)	Intellectual property rights (intellectual property)
IT	Institutional theory
JV	Joint venture
M&A	Merger and acquisition
MNE	Multinational enterprise
OECD	The Organization for Economic Co-operation and Development
R&D	Research and development

RBV	Resource-based view
SHR (SH)	The security and human rights (security and human)
TCT	Transaction cost theory
TGF	Theory of growth of the firm
UCS	Universal coded character set
UK	United Kingdom
U.S.A. (U.S.)	United States of America (United States)
USD	United States dollar
vs.	Versus
WOS	Wholly owned subsidiary

1. Introduction

During the past decades, many scholars in various institutions all over the world have been dedicating their research to finding the determinants of the choice of a foreign market entry mode. Many of them focused on some specific groups of entry modes, for instance, by ownership level, indirect versus direct export, or different entity modes – greenfield investment versus acquisition, greenfield, brownfield or acquisition etc. Even though the amount of research conducted in this field is significant, scholars have not agreed on some of the factors and their influence yet. Also, as time passes, some new issues arise, for instance, multinational companies from countries with emerging markets have not been present in the developed markets until recently. Therefore, the research should not stop and more important issues and more specific questions need to be raised and answered in future studies.

The purpose of this paper was to analyze previous literature on the determinants of the choice between establishing a greenfield venture and purchasing a local firm when firms enter foreign markets and to detect some limitations, trends, and some more or less new outstanding questions in this concern.

The paper is structured as followed: the second chapter reveals the main theories that have been used by the authors of the most studies, especially those whose hypotheses, methods, and results have been presented further. Among the theories are Uppsala Internationalization Model widely used to explain the choice of a market entry mode at different stages, the Transaction Cost Theory that has also been one of the favorite models for many scholars, the Institutional Theory which is much capable to explain many of the determinants of the choice, the Theory of the Growth of the Firm which has also received many implications, the Theory of Mergers and Acquisitions that focuses on one of the modes, however, digs more deeply in its subject, the Resource-Based View which has frequently been confused with some other models, yet, has finally found its recognition by scholars, and the Cultural Dimensions Theory which has been one of the favorite models in many scientific areas. The third chapter focuses on the findings of studies on the choice between greenfield investments and acquisitions in foreign markets beginning with the 1990s and until today. Brownfield investments have been also included in the chapter since it is a hybrid version between the two modes mentioned above. The fourth chapter describes selected hypotheses from different studies, explains what data have been used to test those hypotheses and what methods have been used, and then shows the results of these studies. At the end of the chapter, some gaps and poorly researched issues have been detected.

2. Theoretical Framework

2.1 Foreign Market Entry Modes

According to the definition suggested by Root (1987), a foreign market entry mode is “an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management or other resources into a foreign country” (Root, 1987, p.5).

Export strategy for a company is a long-term plan to export its goods, services, work, and/or funds to a foreign market or to foreign markets. This strategy also includes the means and methods through which the company aims to implement this plan (Karagulyan, 2015).

Thus, as soon as a company has decided to distribute its products or services internationally, it has to deal with a choice of a foreign market entry mode. There are a lot of possibilities for a firm from which it can choose, however, not every entry mode will be applicable for every company in every situation. Therefore, the choice has to be made with a lot of precision and thought. A hierarchical model of market entry modes proposed by Pan and Tse (2000) is displayed in Figure 1:

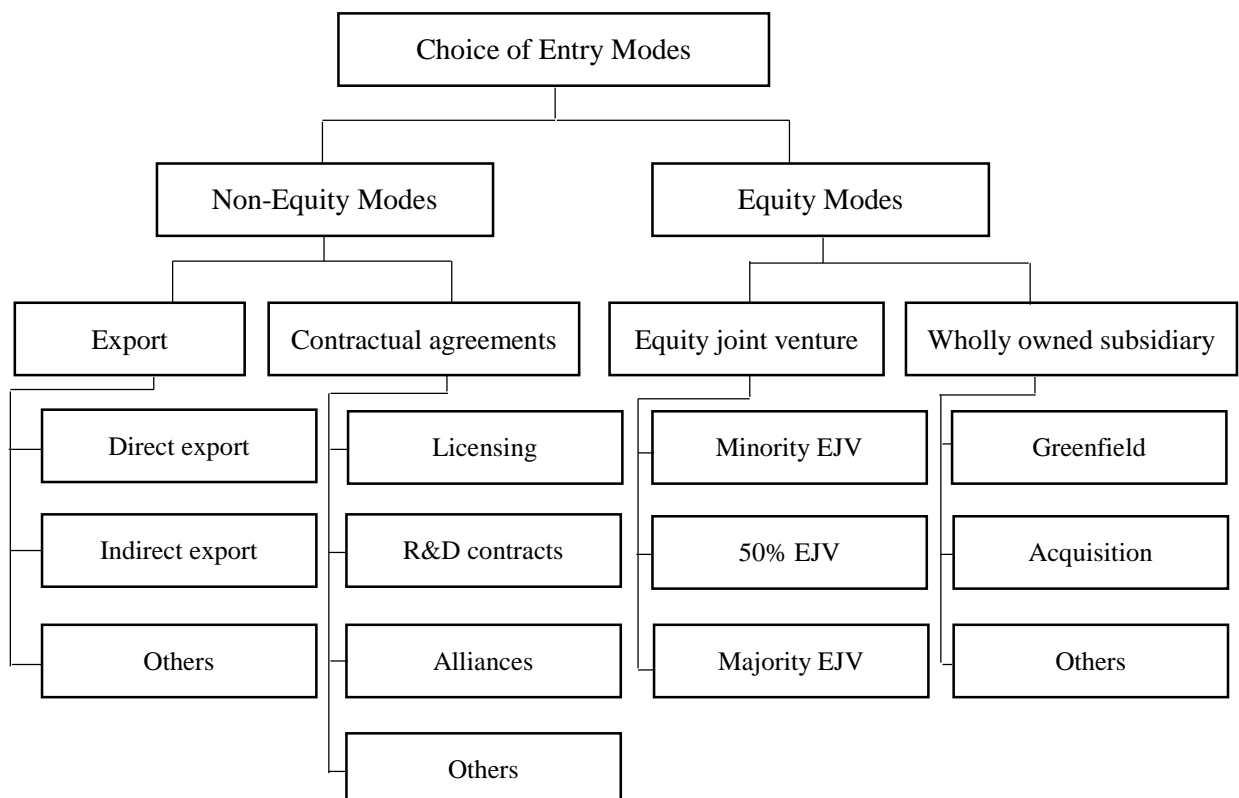


Figure 1. A Hierarchical Model Entry Mode Choices (Pan, Tse, 2000, p. 538)

In case of non-equity market entry modes, a company has no intention of creating or acquiring a branch office in the foreign country, but instead, it exports its production or arranges a contract with some other firm or firms.

Direct export can be executed through a foreign agent or a distributor in the country of interest, it can also include a representative office or even an own foreign distribution network. Indirect export can be undertaken via the sales of a company's goods or services through a domestic intermediary (Wach, 2014).

One of the different possibilities of signing a contractual agreement is licensing which implies sales of rights covered by a patent or any intellectual property to be used for commercial purposes abroad. A company can also employ some other firm to conduct research in the country of interest via a research and development contract. Franchising is another contractual agreement that includes sales of rights by a domestic franchisor to a foreign franchisee who will then conduct commercial activities under the name of the franchisor (Wach, 2014).

Unlike non-equity modes, equity market entry modes include the creation of a new company or buying an existing one. A company can own a whole foreign facility or only its part sharing it with its partner. A shared company is called joint venture and it can be one of three types:

- Minority joint venture, where the company owns less than 50% of all the shares while its partner plays a rather dominant role;
- 50% joint venture, which supposes both partners to share the facility equally; and
- Majority joint venture, where the company owns more than 50% of the shares and plays a dominant role (Wach, 2014).

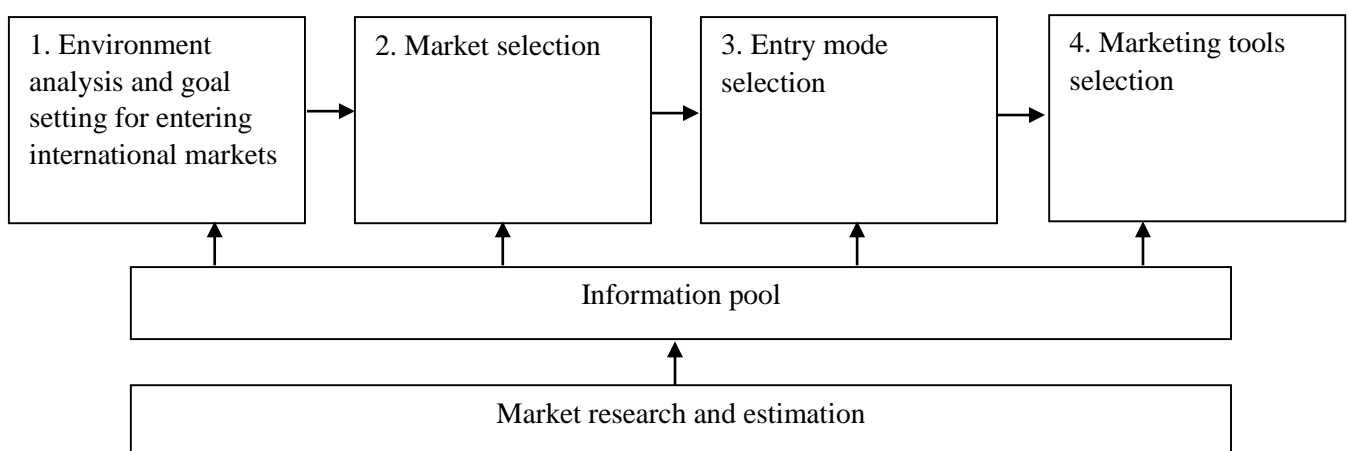


Figure 2. A pattern of main decisions in international marketing (Karagulyan, 2015, p.6)

And finally, the main subject of this specific paper is a wholly owned subsidiary which can be either created from a scratch (greenfield) or acquired (acquisition). Sometimes, another type of wholly owned subsidiaries is mentioned known as a brownfield investment. Figure 2 presents a pattern of decision making when planning on entering a foreign market.

2.2 Greenfield, Acquisition, Brownfield: Definitions

As it has already been mentioned in the previous chapter, a greenfield investment means investing from the very beginning. According to Cheng (2006), “a greenfield entry into a foreign market involves the establishment of a new affiliate in a host country by another firm headquartered outside the country” (Cheng, 2006, p. 203).

As it is clear from the name of an acquisition, this market entry mode includes mergers and acquisitions of firms existing in the host country. Cheng (2006) describes the acquisition entry into a host country as “the purchase of the stocks of an established firm in the host country by another firm headquartered outside the country in an amount sufficient to confer control” (Cheng, 2006, p. 203).

Brownfield is often seen as a hybrid mode of the two modes mentioned above since it includes an acquisition of an existing company and restructuring it completely as in greenfield. According to Cheng (2006), “a brownfield entry into a foreign market is a new operation that entails the purchase of an existing firm by an acquirer headquartered outside the country; the newly acquired firm in the host country is then gutted and comprehensively restructured, primarily with resources (employees, plants, equipment, product lines etc.) provided by the acquirer, during a short transformation period” (Cheng, 2006, p.203). Table 1 displays the main advantages and disadvantages of foreign direct investment in comparison with indirect investment.

Advantages of FDI	Disadvantages of FDI
<ol style="list-style-type: none"> 1. Control over the selection of foreign markets and foreign partners. 2. A lot of feedback from the target market. 3. Better protection of intellectual property. 4. Potential of larger sale volumes. 	<ol style="list-style-type: none"> 1. Larger primary costs and higher risk. 2. More and stricter information requirements. 3. Longer preparation for market entry.

Table 1. Advantages and disadvantages of Foreign Direct Investment (Karagulyan, 2015, p. 22)

Figure 3 displays the reasons why a firm might decide to enter through an acquisition and the main difficulties it might face on the way to success.

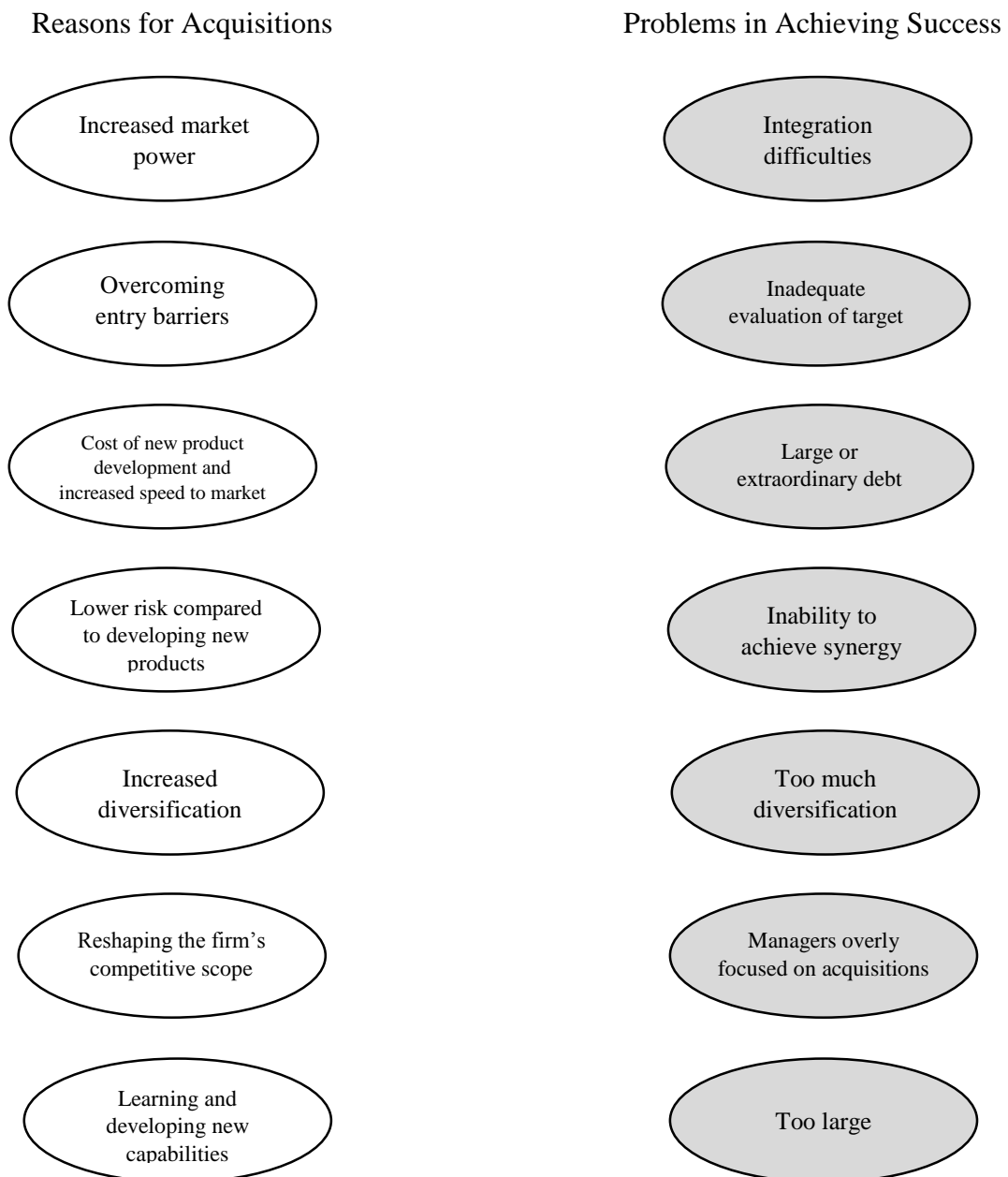


Figure 3. Reasons for acquisitions and problems in achieving success (Hitt et al., 2009, p.199)

2.3 Theoretical perspectives

In this part of the chapter, the most common of the existing theoretical views on the internationalization process will be discussed. Among these are the Uppsala internationalization model, the transaction cost theory, the resource-based view etc.

As it has already been mentioned in previous parts of this paper, a company has to choose market entry modes when it meets a decision to expand its activity internationally, in order to minimize the possible disadvantages and to get the most of use of the potential advantages. Different theoretical perspectives consider the process of internationalization under different angles and, therefore, are important to take into account.

2.3.1 The Uppsala Internationalization Model

This theory explains how a company gradually intensifies its activities in foreign markets while gaining experience first from its home market and then entering markets which are close to its domestic market in geographical and/or cultural respect. After the firm has mastered its activities in closer markets, it expands into the more distant markets (Blomstermo, Sharma, 2003).

According to the research conducted by Hood and Young (1979), a firm will select the most appropriate mode to enter a foreign market by evaluating its potential costs and risks. The scholars suggested a four-stage scheme based on their observations of Swedish-owned subsidiaries overseas with successive stages, which means that each of them represents a higher level of involvement in the international environment than the previous one (Johanson, Vahlne, 2009; Andersen, 1992):

1. No regular export activities.
2. Export via independent representatives.
3. Establishment of a foreign sales subsidiary.
4. Establishment of overseas production/manufacturing units.

According to this scheme, a firm starts its international activities using intermediaries. As sales of the firm grow, it tends to replace its export agents with its own sales units. And finally, when the sales have reached a significant level, the company will begin manufacturing and operating in foreign market on its own, in order to minimize the main trade barriers (Johanson, Vahlne, 2009).

As it has already been briefly mentioned at the beginning of this part, internationalization often starts with those foreign markets which are rather close to the domestic market – the so-called psychic distance is rather small (Johanson, Vahlne, 2009). Accordingly, firms would penetrate markets with rather greater psychic distance thereafter (Andersen, 1992). The so-called liability of foreignness, which is conceptualized as a disadvantage for a foreign firm, for instance, some unavoidable costs that foreign firms have to pay while operating in host markets and local firms do not (Hymer, 1976), also was hypothesized by Johanson and Vahlne (2009) to be larger, the larger psychic distance of a market.

Figure 4 displays the basic mechanism of internationalization published in the dynamic model created by Johanson and Vahlne (1977) to explain the incremental property of the process of internationalization. According to this model, the outcome of one decision becomes the input of the next one. This mechanism consists of two aspects – the change aspect and the state aspect (Johanson, Vahlne, 1977).

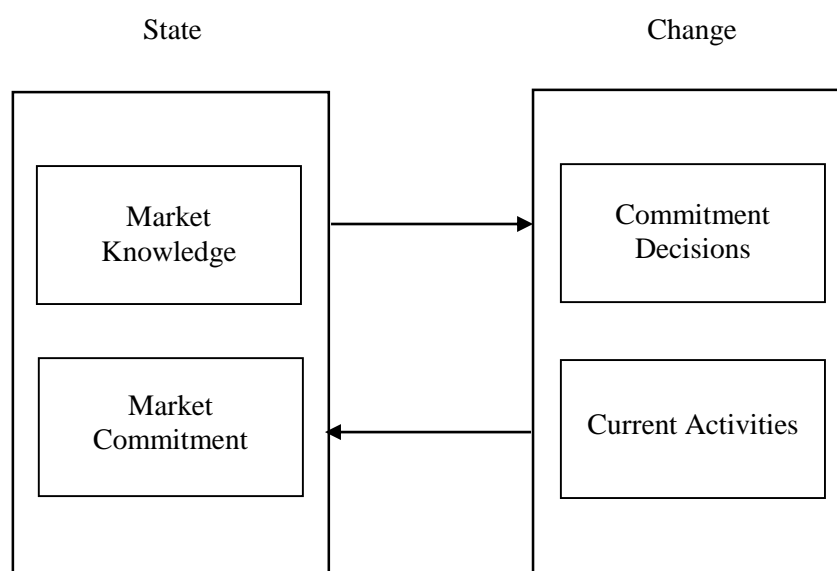


Figure 4. The basic mechanism of internationalization: state and change aspects (Johanson, Vahlne, 1977, p. 26)

“Experience builds a firm’s knowledge of a market, and that body of knowledge influences decisions about the level of commitment and the activities that subsequently grow out of them: this leads to the next level of commitment, which engenders more learning still” (Johanson, Vahlne, 2009, p. 1412). Thus, according to the authors, a company gains its knowledge of a foreign market during the time it deals with it, and this knowledge affects the decisions that the firm makes and its activities in that market which results in a higher level of commitment (Johanson, Vahlne, 2009).

In the paper that Johanson and Vahlne wrote in 2009 revisiting the 1977 model, some changes were suggested and explained. Thus, knowledge opportunities replaced market knowledge since a firm realizes the existence of different opportunities which is an essential part of the knowledge. The market commitment was respectively replaced by network position since the internationalization process takes place within a network. Also, current activities were changed to learning, creating, and trust-building since exactly these activities have the most influence on the company's network position. And the commitment decisions from the model created earlier were slightly changed and became relationship commitment decisions since the existing opportunities influence the relationship between the firm and its agents, partners etc. The revisited model is displayed in figure 5 (Johanson, Vahlne, 2009).

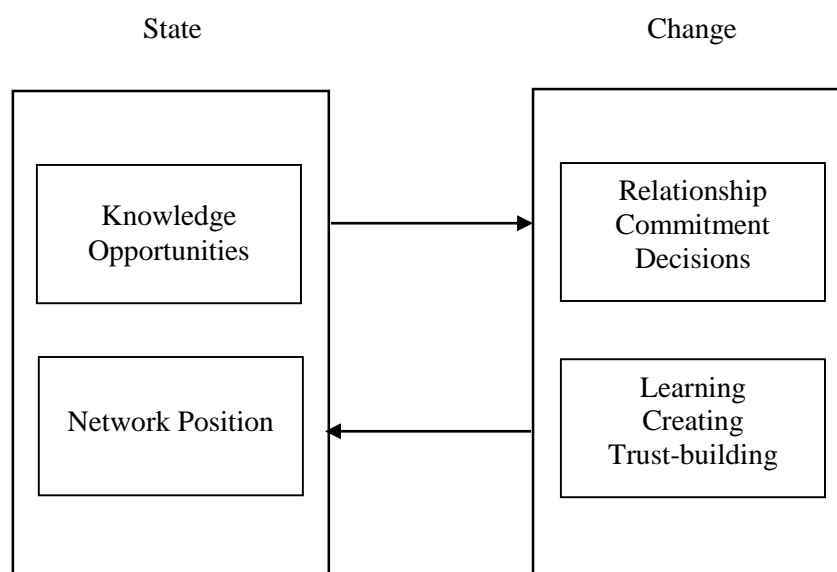


Figure 5. The business network internationalization process model (the 2009 version) (Johanson, Vahlne, 2009, p. 1424)

This theory has great importance for the subject of a choice of a foreign market entry mode, however, for the sake of the choice between the two (or sometimes three) entity modes – greenfield (and brownfield) investment and acquisition – only cultural context will be taken into account, at least in this paper. The culture was first viewed and analyzed in the economic context by Hofstede in his cultural dimensions theory. The key thoughts of this theory and its further development will be presented in chapter 1.3.7.

2.3.2 The Transaction Cost Theory

The basics of the transaction cost theory have been first described by Coase in 1937. According to Geyskens et al. (2006), in the article “The Nature of the Firm”, Coase described markets and hierarchies as substitute governance structures. The author argued that a company will have room for growth as long as the costs of carrying out a transaction as an exchange on the market are not the same as when this transaction takes place within the firm (Geyskens et al., 2006).

According to Hollensen (2010), “this theory predicts that a firm will internally perform those activities it can undertake at lower cost through establishing an internal (hierarchical) management control and implementation system while relying on the market for activities in which independent outsiders (such as export intermediaries, agents or distributors) have a cost advantage” (Hollensen, 2010, p. 77).

If the transaction costs through an external importer or an agent are higher than the control cost within the firm’s internal hierarchical system, then the firm should try to internalize its activities, for instance, implement a global strategy in its wholly owned subsidiaries (Hollensen, 2010).

According to Hennart and Park (1992), the essence of a foreign direct investment for this theory is the cross-border expansion of firms. In order to enable such an expansion, two conditions must be met:

- Location of facilities abroad must be more efficient than exporting from the home market;
- A firm must want to own the foreign facilities, for instance, hence, it should organize its interdependence with their foreign partners through hierarchical methods, if the costs of interdependences in a market are higher than those within a multinational firm (Hennart, 1982; Hennart, Park 1992).

In 1981, Williamson published a paper where a transaction is also regarded as a basic unit of analysis and where the transaction cost is central in the study of organizations (Williamson, 1981). However, this study has been criticized by Ghoshal and Moran (1996) for having too narrow assumptions of human nature, for instance, opportunism. Frequently, companies create very strong relationships with their agents which makes them their partners. In this case, a firm can spare unnecessary investments in its own subsidiaries (Hollensen, 2007).

According to Anderson and Gatignon (1986), there are four constructs determining the most optimal degree of control which influence the efficiency of an entry mode:

1. Transaction-specific assets (physical and human investments for specific users or uses);
2. External uncertainty (the unpredictability of external environment of an entrant);
3. Internal uncertainty (the inability of an entrant to determine the performance of its agent by analyzing the output measures); and
4. Free-riding potential (the ability of an agent to receive benefits without the associated costs) (Anderson, Gatignon, 1986).

As Hollensen mentioned in his book (2007), the role of transaction cost has been much overestimated, whereas the importance of production costs has mostly been neglected (Hollensen, 2007). According to Williamson (1985), production cost also plays an important role, and the most effective strategy for a firm is to minimize both transaction and production costs (Williamson, 1985).

2.3.3 The Institutional Theory

The theory is concerned with the fact that behavior of different organizations (just as well as individuals) is very dependent on the norms, rules, schemes, and routines that exist in the society (Scott, 2004). According to Scott (1995), organizations have to follow existing rules in their environment in order to survive (Scott, 1995).

According to Brouthers and Brouthers (2000), the institutional theory is concerned less with the exploitation of existing capabilities as it is in the transaction cost theory, but much more with development and/or enhancement of capabilities (Brouthers, Brouthers, 2000; Madhok, 1997). In the institutional context, all the assets of a firm can be divided into tangible and intangible resources. Tangible assets consist of financial and managerial resources, whereas intangible assets mean capabilities – for example, technological intensity or multinational experience (Madhok, 1997; Brouthers, Brouthers, 2000). However, this view on the theory has been later transferred to the resource-based view.

The institutional theory suggests that a foreign market entry choice of a firm is affected by the institutional environment of a country since this environment specifies the so-called “rules of the game” by which it is crucial to abide in the selected market (Brouthers, Hennart, 2007).

In her study in 2002, Harzing underlined six of the most commonly distinguished variables when analyzing the choice between different market entry modes: R&D intensity, the diversification degree, the foreign experience level, cultural distance, the size of the foreign direct investment compared to the size of the investing company, and the time of entry (Harzing, 2002).

According to Davis et al. (2000), those business units, which are highly influenced by the institutional norms of their headquarters, tend to apply wholly-owned market entry modes (e.g. greenfield, acquisition, brownfield), whereas those business units which are influenced more by the environment of the host country, tend to apply export. In this case, such headquarters' characteristics as their focus on internal isomorphism (similarity or identity of form, shape, or structure) are more important than the factors of the host country when determining the choice of market entry mode (Davis et al., 2000; Shimizu et al., 2004).

As it was mentioned in the study conducted by Brouthers and Brouthers (2000), a greater size of an enterprise allows it to have more extensive activities internationally. Also, the size of investment relative to the size of the firm is an important variable that determines the choice of a market entry mode (Brouthers, Brouthers, 2000).

Brouthers and Brouthers (2000) observed two main intangible resources that have the biggest influence on the market entry mode choice – technological intensity and multinational experience. Technological intensity is the share of sales that is created due to research and development (Brouthers, Brouthers, 2000). Multinational experience means the knowledge and the time spent by a company in the multinational environment.

However, this theoretical perspective has also received its share of criticism: in 2014, Greenwood et al. addressed the theory with two points. The first point refers to the fact that in the institutional theory all the organizations are viewed as if there were no relevant differences between them for the research purpose. This means that the obvious heterogeneity of firms is being ignored. The other point that is underlined in this article is that research mostly lacks a proper understanding of organizations and their nature (Greenwood et al., 2014; Meyer, Höllerer, 2014).

According to the counterpoint to the work of Greenwood et al., published in 2014 by Meyer and Höllerer, there are at least four aspects that should be addressed as a new agenda for the research:

- Organizations need to be looked into more deeply regarding their structure, management, and coordination;
- Every organization needs to be seen “as a whole”, roles of organizations as actors need to be determined;
- Various organizational arrangements across institutional fields need to be observed; and
- Comparative analysis needs to be applied again (Meyer, Höllerer, 2014).

More recently, some authors have mentioned the new institutional theory which was created in order to diminish the existing shortcoming of the institutional theory – the lack of theory on the risk factors in a foreign market environment. This theory presents three dimensions of the institutional environment of a country:

- Regulatory;
- Cognitive; and
- Normative (Scott, 2005; Brouthers, Hennart, 2007).

These dimensions are different in every country and influence the way business works in a specific country. Thus, they also affect the decisions that managers make when entering a specific foreign market (Brouthers, Hennart, 2007).

2.3.4 Theory of the Growth of the Firm

According to this theoretical perspective, the quality of the human resources of the parent firm might also have an influence on the choice of market entry mode. As Hennart and Park (1993) state in their paper, for instance, if a firm lacks personnel this might affect its choice of market expansion mode (Hennart, Park, 1993).

However, according to the book written by Penrose (2009), economic theory regarding the growth of a firm had not included any data from the real firms for many years. “For mainstream economic theorists ‘the “firm” was primarily a set of supply and demand functions’” (Pitelis, Penrose, 2009, pp. 16-17). In the paper by Penrose (1985), the adequacy of existing research on the theory of the size of the firm concerning the limits of growth (management, market, and/or uncertainty limitations) was doubted and it was mentioned that “the analysis of the expansion of the innovating, multi-product, ‘flesh-and-blood’ organization” cannot be conducted with such limitations (Penrose, 1985, p. 12).

Penrose also shared following thoughts about companies that grow: “There are important administrative restraints on the speed of the firm's growth. Human resources required for the management of change are tied to the individual firm and so are internally scarce. Expansion requires the recruitment of more such resources. New recruits cannot become fully effective overnight. The growth process is, therefore, dynamically constrained” (INSEAD, 2017, p. 1; Penrose, 1959).

Penrose introduced a new question that was an interesting idea after the years of answering the same conventional question: “What is the optimal size of the firm?” Penrose replaced this question with the following one: “What is the optimal growth rate of the firm?” (Kor et al., 2016; Penrose, 1959). Also, according to Penrose, the managerial capability can be seen as a constraint limiting the firm growth. She also stated that in case of acquisitions, there is a limit for the growth rate of a firm (Kor et al., 2016).

2.3.5 Theory of Mergers and Acquisitions

According to Oster (1990), there are at least two reasons for a firm to be willing to choose acquisition as its foreign market entry mode:

1. The target company is seen as a “bargain” by the firm that wants to expand internationally, which means that the cost of purchase of the assets is lower than the cost of their replacement, i.e. creation of new assets.
2. The firm-specific advantages can be used in a more effective way when choosing acquisition compared to the greenfield mode (Hennart, Park, 1993; Oster, 1990).

According to the paper published by Hennart and Park (1993), the key difference between the two market entry modes is the market in which the complementary inputs are acquired. The input needed for a greenfield mode will be purchased in an input market, for instance, land or machinery, whereas the input for an acquisition mode comes from a market of companies, i.e. where firms are traded (Hennart, Park, 1993).

In fact, this theory suggests a few advantages of choosing an entry mode through acquisition that must be considered when deciding in what way to enter. Thus, one of such advantages will be the possibility of a “bargain” when purchasing a company. Another advantage will be the reduction of competition on the market when buying a potential rival. Also, entry through an acquisition might be much faster than entry through a greenfield. And finally, in markets and

industries with high economies of scale and high concentration, entry through an acquisition will not expand the capacity and, thus, it will not create a price reduction for its products or services (Hennart, Park, 1993).

The theory of mergers and acquisitions is also very much concerned about possible drawbacks of the market entry mode. The literature especially discusses two of them: the inspection problem and the interaction problem. The inspection problem means that the seller of a firm has more information on it than its buyer. The interaction problem arises when the buyer of a firm has to integrate it into its existing network (Hennart, Park, 1993).

Also, in the paper published by Leepsa and Mishra (2016), different types of the theory of mergers and acquisitions were collected and classified. According to these study, there are efficiency theory, synergy gain theory, diversification, strategic realignment theory, undervaluation theory, information and signaling theory, agency problems and managerism theory, hubris hypothesis, free cash flow theory, market power theory, taxes, and redistribution (Leepsa, Mishra, 2016).

2.3.6 The Resource-Based View

Many scholars argue that the basics of the institutional theory provided at least until the beginning of the twenty-first century did not actually refer to the institutional theory, but to the resource-based view. Therefore, it can be stated that the resource-based view is concerned with the development and enhancement of capabilities of a firm (Brouthers, Brouthers, 2000; Madhok, 1997). All the resources of a firm can be divided into tangible and intangible assets. Financial and managerial resources belong to the tangible assets, whereas intangible assets refer to the capabilities (for instance, technological intensity or multinational experience of a firm) (Madhok, 1997; Brouthers, Brouthers, 2000).

In order to be clear on the main definition of the theory, the following explanations provided by Helfat and Peteraf (2003) are used:

“A resource refers to an asset or input to production (tangible or intangible) that an organization owns, controls, or has access to on a semi-permanent basis” (Helfat, Peteraf, 2003, p. 999).

“An organizational capability refers to the ability of an organization to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result” (Helfat, Peteraf, 2003, p. 999).

According to Meyer and Estrin (2001), there are three main kinds of assets of the investor that are of high relevance when choosing a market entry mode:

- Firm-specific resources (for example, knowledge-based capabilities – technological know-how, access to the production and distribution channels network of the investor);
- Excess managerial resources (via stimulation of the growth of a firm); and
- Financial resources (especially applicable and helpful in distant markets and markets with high risks) (Meyer, Estrin, 2001).

2.3.7 The Cultural Dimensions Theory

In 1984, Hofstede published his study on the cultures and their influences on how the work in different organizations is being done. For the original study, the author collected and analyzed data from 40 different countries from IBM, a large multinational corporation. In the research, he identified four work-related cultural dimensions:

- Power distance;
- Uncertainty avoidance;
- Individualism versus collectivism; and
- Masculinity versus femininity (Hofstede, 1984; Wu, 2006).

Power distance means the inequality of power between superiors and their subordinates in organizations in a specific country. Thus, in organizations with high power distance, the hierarchy is very distinct. There is a great difference between managers and their subordinates (Wu, 2006). Hofstede (2011) mentioned that “power and inequality, of course, are extremely fundamental facts of any society. All societies are unequal, but some are more unequal than others” (Hofstede, 2011, p. 9). In the organizations where power distance is low, the hierarchy tends to be flat with a slight difference between managers and their subordinates (Wu, 2006). In the Power Distance Index published by Hofstede et al. (2010), there are scores for 76 countries; higher scores are in East European, Latin, Asian, and African countries and lower scores are in Germanic and English-speaking Western countries (Hofstede, 2011). Table 2 presents ten main differences between the two subtypes of this cultural dimension.

Small Power Distance	Large Power Distance
Use of power should be legitimate and is subject to criteria of good and evil	Power is a basic fact of society antedating good or evil: its legitimacy is irrelevant
Parents treat children as equals	Parents treat children obedience
Older people are neither respected nor feared	Older people are both respected nor feared
Student-centered education	Teacher-centered education
Hierarchy means inequality of roles, established for convenience	Hierarchy means existential inequality
Subordinates expect to be consulted	Subordinates expect to be told what to do
Pluralist governments based on majority vote and changed peacefully	Autocratic governments based on co-optation and changed by revolution
Corruption rare; scandals end political carriers	Corruption frequent; scandals are covered up
Income distribution in society rather even	Income distribution in society very uneven
Religions stressing equality of believers	Religions with a hierarchy of priests

Table 2. Ten differences between small- and large- power distance societies (Hofstede, 2011, p. 9)

The second dimension is uncertainty avoidance which refers to the tolerance of ambiguity by people in a country. Those cultures where uncertainty avoidance is high have a lot of written rules, strict behavioral codes, and laws that reduce uncertainty. In the cultures where uncertainty avoidance is low, there are few written rules (Wu, 2006). Table 3 presents ten main differences between these two types of cultures.

According to Hofstede (2011), individuals in countries with strong uncertainty avoidance tend to be more emotional and nervous, while those in countries with weak uncertainty avoidance (uncertainty accepting cultures) tolerate opinions which are different from theirs, they are more phlegmatic, contemplative, and not very emotional. Among the 76 countries listed in the Uncertainty Avoidance Index published by Hofstede et al. (2010), those with stronger uncertainty avoidance are English speaking, Nordic and Chinese culture countries, and those with weaker uncertainty avoidance are East and Central European countries, in Latin countries, in Japan and in German-speaking countries (Hofstede, 2011).

Weak Uncertainty Avoidance	Strong Uncertainty Avoidance
The uncertainty inherent in life is accepted and each day is taken as it comes	The uncertainty inherent in life is felt as a continuous threat that must be fought
Ease, lower stress, self-control, low anxiety	Higher stress, emotionality, anxiety, neuroticism
Higher scores on subjective health and well-being	Lower scores on subjective health and well-being
Tolerance of deviant persons and ideas: what is different is curious	Intolerance of deviant persons and ideas: what is different is dangerous
Comfortable with ambiguity and chaos	Need for clarity and structure
Teachers may say “I don’t know”	Teachers supposed to have all the answers
Changing jobs no problem	Staying in jobs even if disliked
Dislike of rules – written or unwritten	Emotional need for rules – even if not obeyed
In politics, citizens feel and are seen as competent towards authorities	In politics, citizens feel and are seen as incompetent towards authorities
In religion, philosophy and science: relativism and empiricism	In religion, philosophy and science: belief in ultimate truths and grand theories

Table 3. Ten differences between weak- and strong- uncertainty avoidance societies (Hofstede, 2011, p. 10)

The third dimension – individualism versus collectivism – is related to the self-value of people in a country and their value of organizations or groups. High individualistic values make people care about their own self-actualization and their career progress in the organization, while low individualistic values make people value the benefits of their organization more than their own interests (Wu, 2006). These two opposite culture types are distinguished by the extent to which people are integrated into their groups or organizations. Hofstede (2011) presented a table with ten key differences between the two cultures, which are displayed in table 4. From the 76 countries in the Individualism Index by Hofstede et al. (2010), scores of developed and Western countries showed a tendency for being individualist societies, whereas scores of less developed and Eastern countries showed a tendency for being collectivist societies. Japan’s score was in the middle in the study (Hofstede, 2011).

Individualism	Collectivism
Everybody is supposed to take care of him- or herself and his or her immediate family only	People are born into extended families or clans which protect them in exchange for loyalty
“I” – consciousness	“We” – consciousness
Right of privacy	Stress on belonging
Speaking one’s mind is healthy	Harmony should always be maintained
Others classified as individuals	Others classified as in-group and out-group
Personal opinion expected: one person one vote	Opinions and votes predetermined by in-group
Transgression of norms leads to guilt feelings	Transgression of norms leads to shame feelings
Languages in which the word “I” is indispensable	Languages in which the word “I” is avoided
Purpose of education is learning how to learn	Purpose of education is learning how to do
Task prevails over relationship	Relationship prevails over task

Table 4. Ten differences between collectivist and individualist societies (Hofstede, 2011, p. 11)

The fourth dimension described by Hofstede is masculinity versus femininity, which refers to the way gender roles are allocated in a country or an organization. In the societies characterized by a high level of masculinity, very few women can get high level and well-paid jobs. In the societies characterized by a low level of masculinity, women have a more equal status and more or less the same rights as men (Wu, 2006). According to the study conducted by Hofstede (2011): “(a) women's values differ less among societies than men's values; (b) men's values from one country to another contain a dimension from very assertive and competitive and maximally different from women's values on the one side, to modest and caring and similar to women's values on the other” (Hofstede, 2011, p. 12).

According to the Masculinity versus Femininity Index from Hofstede et al. (2010), which listed scores for 76 countries, high masculinity level is in Japan, in German-speaking countries, and in some Latin countries (for instance, Italy and Mexico), moderately high level is in English speaking Western countries, low level is in Nordic countries and in the Netherlands, and moderately low level is in some Latin and Asian countries (for example, France, Spain,

Portugal, Chile, Korea, and Thailand) (Hofstede, 2011). Table 5 presents ten crucial differences between these two opposite types of culture.

Femininity	Masculinity
Minimum emotional and social role differentiation between the genders	Maximum emotional and social role differentiation between the genders
Men and women should be modest and caring	Men should be and women may be assertive and ambitious
Balance between family and work	Work prevails over family
Sympathy for the weak	Admiration for the strong
Both fathers and mothers deal with facts and feelings	Fathers deal with facts, mothers deal with feelings
Both boys and girls may cry but neither should fight	Girls cry, boys don't; boys should fight back, girls shouldn't fight
Mothers decide on number of children	Fathers decide on family size
Many women in elected political positions	Few women in elected political positions
Religion focuses on fellow human feelings	Religion focuses on God or gods
Matter-of-fact attitudes about sexuality	Moralistic attitudes about sexuality

Table 5. Ten differences between feminine and masculine societies (Hofstede, 2011, p.12)

In 1990, Hofstede added a fifth dimension to the cultural dimensions – Confucian Work Dynamic which later was renamed to Long-Term Orientation dimension. The new dimension refers to the traditional Chinese cultural values which include four key items:

- Ordering relationship by status;
- Thrift;
- Persistence; and
- Having a sense of shame (Hofstede, 2011).

As the opposite to the items of the long-term oriented culture type, the short term oriented cultures reciprocate social obligations, have deep respect for tradition, protect own “face”, and personal steadiness and stability. A selection of ten differences between long-term and short-term oriented cultures is displayed in table 6.

Short-Term Orientation	Long-Term Orientation
Most important events in life occurred in the past or take place now	Most important events in life will occur in the future
Personal steadiness and stability: a good person is always the same	A good person adapts to the circumstances
There are universal guidelines about what is good and evil	What is good and evil depends upon the circumstances
Traditions are sacrosanct	Traditions are adaptable to changed circumstances
Family life guided by imperatives	Family life guided by shared tasks
Supposed to be proud of one's country	Trying to learn from other countries
Service to others is an important goal	Thrift and perseverance are important goals
Social spending and consumption	Large savings quote, funds available for investments
Students attribute success and failure to luck	Students attribute success to effort and failure to lack of effort
Slow or no economic growth of poor countries	Fast economic growth of countries up till a level of prosperity

Table 6. Ten differences between short- and long-term-oriented societies (Hofstede, 2011, p. 15)

Among the long-term oriented cultures are East Asian countries, as well as Eastern- and Central European countries. South- and North-European, as well as South Asian countries are rather medium-term oriented, while short-term orientation was found in the U.S.A. and Australia, Latin American, African and Muslim countries (Hofstede, 2011).

And finally, in 2010, the sixth dimension was added to the theory – indulgence verse restraint. This dimension is rather complementary to the previous – long-term versus short-term orientation. Indulgence refers to “a society that allows relatively free gratification of basic and natural human desires related to enjoying life and having fun”, whereas restraint refers to “a society that controls gratification of needs and regulates it by means of strict social norms” (Hofstede, 2011, p. 15). In table 7, ten important differences between these two types of culture are listed.

Indulgence	Restrained
Higher percentage of people declaring themselves very happy	Fewer very happy people
A perception of personal life control	A perception of helplessness: what happens to me is not my own doing
Freedom of speech seen as important	Freedom of speech is not a primary concern
Higher importance of leisure	Lower importance of leisure
More likely to remember positive emotions	Less likely to remember positive emotions
In countries with educated populations, higher birthrates	In countries with educated populations, lower birthrates
More people actively involved in sports	Fewer people actively involved in sports
In countries with enough food, higher percentage of obese people	In countries with enough food, fewer obese people
In wealthy countries, lenient sexual norms	In wealthy countries, stricter sexual norms
Maintaining order in the nation is not given a high priority	Higher number of police officers per 100,000 population

Table 7. Ten differences between indulgent and restrained societies (Hofstede, 2011, p.16)

According to the research conducted by Hofstede et al. (2010), indulgence prevails in South and North America, in Western Europe and in parts of Sub-Sahara Africa, whereas restraint was found more in Eastern Europe, in Asia, and in the Muslim countries. Mediterranean Europe has rather a middle position in the dimension (Hofstede, 2011).

The author also mentioned six different organizational dimensions that were found in a number of international and local companies. These dimensions include:

- Process-oriented (technical and bureaucratic routines) versus results-oriented (common concern for the outcome);
- Job-oriented (responsibility only for the job performance of employees) versus employee-oriented (a broad responsibility for the wellbeing of employees);
- Professional (employees associated with their profession) versus parochial (associated with the organization where they work);
- Open systems versus closed systems (extent of internal and external communication, whether outsiders and newcomers are easily accepted);

- Tight versus loose control (degree of formality and punctuality); and
- Pragmatic versus normative cultures (degree of customer orientation) (Hofstede, 2011).

In this paper, the focus will be rather on the level of uncertainty avoidance separately, as well as the whole cultural origin of both a home country of the parent firm and a host country of the market it decides to enter. Further on, this theory will be referred to as cultural context in order to make some of the hypotheses in chapter 3 clearer.

3. Analysis of the Existing Research Literature

In this chapter, a chronologically structured analysis of the existing literature on the market entry mode choice between greenfield and acquisition (as well as brownfield in some cases) is further provided. The main sources used for this research are dated by the beginning of the 1990s.

3.1 Greenfield

As it has been mentioned in the previous chapter, a greenfield investment is a case when a company that desires to expand its activities by entering a foreign market via an equity mode sets up a new venture, a new firm in the host country environment from a scratch.

Hennart and Park (1993) conducted research on the factors that influence the choice of the U.S. market entry mode by Japanese companies, which to a large extent prefer acquisitions over greenfield investments. By that time, this had been the first study to be concentrated on this subject concerning Japanese firms in the USA (Hennart, Park, 1993).

According to Hennart and Park, a company that invests abroad has a combination of some firm-specific advantages that were developed at its domestic market environment and which it can exploit abroad at low marginal cost, and other resources available in the host country environment. The choice between greenfield and acquisition investments is made by the investor due to the level and nature of those firm-specific advantages. There are two types of firm-specific advantages that can be exploited abroad: some superior organizational capabilities and some technical expertise. In the case when these firm-specific advantages are “deeply embedded” into the organization of the firm, they cannot be separated or/and used in combination with some local firm advantages. Thus, such a company will choose a market entry mode through greenfield investment. In fact, a greenfield investment is the only way to transfer

such firm-specific advantages into a foreign market at a lower cost. The new venture will also inherit the parent's organizational culture which may often also be an advantage (Hennart, Park, 1993). This point of view on the subject refers to the resource-based view theory mentioned in the previous chapter.

As it is mentioned in this paper, it is easier to finance a greenfield investment by borrowing some financial assets, which might be too expensive for many firms. Hennart and Park also mention that according to the transaction cost theory, Japanese investors, which have a lot of experience in the international markets, will prefer entering the U.S. market through a greenfield investment. And according to the theory of mergers and acquisitions, Japanese investors might also prefer to enter through greenfield in order to minimize any possible interaction problems (Hennart, Park, 1993).

As it is shown in the results of the paper, those Japanese companies-investors with higher R&D level tend to prefer entering the U.S. market through a greenfield investment since they find it more effective as for transferring their firm-specific advantages to the foreign market. Another result of the study is that those Japanese firms, which are followers (meaning that they are not the first-movers, but rather follow them and learn from their experience), might tend to enter through greenfield as the riskiness of this entry mode is then reduced due to the presence of the leaders' experience (Hennart, Park, 1993).

Another result of the study suggests that advertising intensive Japanese companies also prefer to enter through a greenfield investment since the established brand is not transferable, but it is possible to establish it in the U.S. with its share of advertisement. Also, those companies whose final consumers are other companies – the producer goods manufacturers – might tend to choose greenfield since the brand name is of not that high importance for them as it is in the case of consumer goods (Hennart, Park, 1993).

The authors also found that financial factors do not affect the choice of a market entry mode for Japanese companies as much as they do for many other companies since the financial assets that they need to borrow from a bank to establish a greenfield plant are easier to get due to the close relationships between banks and other companies in Japan. Also, the ownership level that the investor seeks for its new subsidiary is not important, as it is shown in the study (Hennart, Park, 1993).

As it has been mentioned in the previous chapter, a greenfield investment has some capacity-intensifying nature since this market entry mode creates a new rival in the industry. However,

this might not be a problem in highly concentrated industries, as its effect will be hardly noticeable (Hennart, Park, 1993).

Shaver (1998) presented his research on the effect of a market entry mode choice on the survival of the foreign direct investment. The author mentioned in the results of the paper that those firms which have “stronger sources of competitive advantage” will rather prefer to enter a foreign market through a greenfield investment (Shaver, 1998, p. 584).

In the paper written by Brouthers and Brouthers (2000), two contrary ideas in cultural context were presented. The first idea suggested that a fast-growing market offers a lot of opportunities for capacity growth through the establishment of greenfield subsidiaries. The other idea was rather concerned with an entry through acquisition and will be, therefore, presented in the following chapter. Another suggestion made in this paper was that a firm entering a foreign market with small cultural distance will face lower risks and, therefore, want to maximize its firm-specific advantages by creating a greenfield investment (Brouthers, Brouthers, 2000).

Brouthers and Brouthers (2000) also mentioned that investors from countries which are characterized by a high level of uncertainty avoidance will prefer to enter by establishing a new venture since it is difficult to embrace the change and adapt to the new circumstances for such firms (Brouthers, Brouthers, 2000).

As the result of the research, authors presented the following findings: a firm will prefer to enter through a greenfield investment if it plans a relatively small investment, if its level of technological expertise is high and it has a lot of international experience, if it is entering a fast-growing market and its own country has high level of uncertainty avoidance. Also, due to the results of the study, firms with a lot of high level of technological expertise and high level of diversification tend to prefer a greenfield entry mode. Another finding of the study is, in contrast to the previous research, that firms with a lot of experience and those with high growth rates tend to choose a greenfield investment (Brouthers, Brouthers, 2000).

Görg (2000) also conducted a research on the choice between a greenfield investment and an acquisition, in which he considered three alternatives of a market entry for a firm:

- Acquisition of an existing low-technology firm;
- Acquisition of an existing high-technology firm;
- Set up of a greenfield facility.

Since only one of these alternatives refers to the greenfield entry mode, this chapter will focus on the assumptions that were suggested for verification for this alternative only, as well as on the results regarding it. The first assumption is that marketing costs are higher in the case of a greenfield investment since the firm might lack knowledge about the local market. Another assumption is that a firm that enters a foreign market only needs to take on product adaptation (Görg, 2000).

One of the main results of the study is the following: “if the costs for acquiring market knowledge in the foreign market are relatively low compared to costs for product adaptation a foreign firm may be better off entering the market via greenfield investment” (Görg, 2000, p. 15). Another result confirmed the previous research that a greenfield investment will add to the capacity in the industry which will lead to the price decrease (Görg, 2000).

The next paper that should be paid attention to was written by Anand and Delios (2002). The study has an obvious and strong focus on relative competitive advantages which are either in the home or in the host country. When the relative advantage is in the home country, the authors suggest that a greenfield investment is preferred. If the host country has the relative advantage, it is more likely that the investor will choose to acquire a local firm. Specifically, a technological intensity of either host or home country is marked as important by the authors (Anand, Delios, 2002).

Two other issues which have been emphasized by Anand and Delios (2002) are such crucial firm-specific assets as the brand name and the salesforce. The brand name has already been mentioned in previous studies, therefore, we will skip it for now. Yet, the second resource did not receive much attention in the past and, thus, should be explained in detail. By salesforce is a system of relationships between buyers and sellers and their support. In the research, the authors analyzed the intensity of salesforce usage in the industry (Anand, Delios, 2002).

According to the results of the study, a greenfield entry mode will be chosen if the technological intensity in the industry in the home country is higher than in the host country. This evidence conflicts with the previous research where technological intensity only explained the relative level of the investment in the industry since this study marks it as a determinant of the choice of a market entry mode. Also, the scholars drew the conclusion that this relative advantage (the so-called “capability-seeking argument”) is not limited to any specific industry or sector (Anand, Delios, 2002).

Another study that was introduced in 2002, written by Harzing, sees the international corporate strategy of a firm as an important determinant of the choice of a market entry mode. The author provided a definition of this strategy as follows:

“International corporate strategy is defined as the way in which the organization positions itself with regard to the global business environment and creates and sustains competitive advantage across national boundaries” (Harzing, 2002, p. 212).

The author also presented two theoretical perspectives on the influence of the international corporate strategy on the choice between entry through greenfield and entry through acquisition: (1) the firm-specific advantages of the investor and (2) different levels of internal versus external isomorphism of firms. According to the paper, it is often easier and cheaper to set up a new low-cost venture and to apply the latest production technologies in it than accept or adapt an acquired firm to the own requirements of the investor (Harzing, 2002). Thus, this hypothesis matches the results of previous research in that respect that if the technological advantage of the firm is in the home country (or, in other words, inside the parent firm), a greenfield investment is preferable.

As for the second perspective, a subsidiary that is more or less a copy of the parent firm, at least at its key structures, policies, and procedures is better achievable through establishing a greenfield venture. Thus, those companies which follow a global strategy will prefer to enter through a greenfield investment, which was also confirmed by analysis of the data (Harzing, 2002).

In 2004, Gilroy and Lukas introduced their study on the determinants of the choice between a greenfield investment and an acquisition for a firm. The authors presented a real-options model approach with a two-phase market entry situation, where the first phase is the export strategy and the second one is either a greenfield or an acquisition. As the result of the analysis, the scholars point out that the important determinants of the choice of a market entry mode were the associated additional costs, for instance, marketing costs, adaptation costs, cost of building trust, as well as the uncertainty of the project. Also, according to the research, some factors of location-specific attractiveness play an important role. For example, a possibility of high growth makes riskier modes seem more attractive speeding up the international expansion. In the case of high instability and uncertainty, the switch to an equity market entry mode will be rather delayed, therefore, host countries with such environment will be rather disadvantaged (Gilroy,

Lukas, 2004). However, the paper did not detect a real difference between the two market entry modes and the determinants for the choice between them.

According to Cheng (2006), if a firm faces different barriers in the host country, for instance, inefficient bureaucracy, long and exhausting negotiations, has to analyze the viability of the economy etc., which is mostly the case in the developing countries, the transaction costs might inhibit an acquisition in such a market, therefore, the firm might tend to choose a greenfield operation in order to reduce exposure to that host market (Cheng, 2006).

The study of Demirbag et al. (2008) was one of the first works which separated perceived investment risk in the host country from the general risk of the environment. Since the stability or instability of the institutions in the host country affects the investments made in the market, they also influence the choice of a market entry mode. The authors, thus, suggested that a firm that decides to enter a host country with a high level of perceived investment risk will rather choose a greenfield investment, as it was hypothesized in the paper by Meyer and Nguyen (2005): “efficiency of institutions in supporting markets for critical resources encourages foreign direct investments in the form of greenfield” (Meyer, Nguyen, 2005, p. 76; Demirbag et al., 2008). This argument corresponds with the institutional theory. This suggestion was also confirmed by the result of the research. The authors explained the finding by the high level of financial resource commitment that is required in the case of an acquisition (Demirbag et al., 2008).

Another argument that also suggests an entry through a greenfield investment due to a high level of investment risk is the capital market failure. According to this theory, an acquisition entry mode provides a possibility of purchase of unwanted resources which will also increase the utilization costs and increase the risk for a business. Since the capital market structure in emerging markets is weak, it might be difficult for the entrant to sell those resources in order to return some of the financial resources. Therefore, investors tend to enter by establishing a greenfield subsidiary (Demirbag et al., 2008).

Governments also tend to provide more incentives for the greenfield investments than for the acquisitions due to the creation of new workplaces by the new venture, which increases the employment rate in the host country, and to the technology and knowledge transfer. Also, the taxation policies of host countries and special economic zones influence the choice of a market entry mode. Thus, the authors also suggested that the investors that consider the existing incentives in the host country market important will prefer to enter via a greenfield investment.

However, the suggestion was not confirmed by the analysis. It can be, therefore, concluded that government regulations and financial incentives have no or at least no significant impact on the choice of a market entry mode (Demirbag et al., 2008).

If the investor expects a decrease in the costs of operation in the host market and needs few complementary resources, then it is more reasonable to enter via greenfield since there is enough evidence in the literature that a firm that is rather in need for complementary inputs will prefer to enter via acquisition as it is mentioned in the following chapter (Demirbag et al., 2008).

Nagano (2013) decided to go deeper into the institutional theory and review separate aspects of the environment of the host country. For instance, the author suggested that if a host country has an advanced intellectual property rights protection law, the firm entering the market might prefer to enter via a greenfield investment (Nagano, 2013).

According to the results of the study, the enhanced intellectual property rights protection law of a host country in combination with taxation reform motivates foreign firms to enter through a greenfield investment. Thus, the suggestion made by the researcher was confirmed (Nagano, 2013).

In 2018, Cai and Karasawa-Ohtashiro decided to look deeper into the costs of starting a firm in a foreign market and made a suggestion that if the fixed costs of starting a business are relatively small, the foreign parent will tend to prefer a greenfield investment in that market. As the proposition found confirmation in the results, the author explained that since a foreign parent firm has to pay some price to the management of the local firm being acquired, the attractiveness of such a merger decreases and, thus, makes an acquisition only interesting for a foreign investor, if the fixed costs are high. Thus, in the case of low fixed costs, the firm will enter through a greenfield mode (Cai, Karasawa-Ohtashiro, 2018).

3.2 Acquisition

Just like the previous chapter started with the paper published by Hennart and Park (1993), this chapter also begins with the findings of the same study. Yet, it is important to remind the main definition of this part of the paper: a market entry mode through an acquisition means that the company that desires to enter a specific foreign market decides to purchase an existing firm in that country and make it its own subsidiary.

While the study conducted by Hennart and Park (1993) has shown many different cases in which Japanese firms entering the U.S. market might want to choose greenfield, it is stated at

the beginning of the paper that they tend to prefer acquisition. According to the paper, those companies, which are in need of some complementary inputs that are cheaper in a bundle than separate on the market, might prefer an acquisition over greenfield. By such inputs, different types of assets are meant; for instance, managerial forces of the existing firm who have more experience in this specific market as well as in this specific firm. Thus, those companies which have little or no experience in the foreign market will rather choose an entry through acquisition. Another type of knowledge that an investor might lack is product-specific knowledge if the investor does not manufacture this product in its domestic market. In this case, it will also need to receive this lacking asset from the local market, most certainly by entering through an acquisition (Hennart, Park, 1993).

According to the paper, some firm-specific advantages of the investing company are very well compatible with an acquisition. Some of such advantages are management control systems of a very high level, which allow control over the local managers in the foreign environment, and marketing knowledge, thus, advertising-intensive firms might prefer to enter through an acquisition (Hennart, Park, 1993).

As it has already been mentioned in the first chapter, many scholars mention two main reasons and the circumstances under which an acquisition might be more preferable than a greenfield. The first reason is the possibility of a “bargain” when an investor purchases a local firm as a part of a good deal at a very attractive price. The other reason is the case when those firm-specific advantages mentioned above can be combined with some local inputs and create even more value by an entry through an acquisition. Yet, an acquisition might also lead to some problems in the company – the so-called post-acquisition management problems since those are more difficult to manage than greenfield (Hennart, Park, 1993).

As for the growth of the investing company, in the case when the firm has to deal with a shortage of personnel, it might want to choose an acquisition as it provides the company with managers and even regular workers (Hennart, Park, 1993).

The results of the study, however, show that those companies which produce a different product in the foreign environment than in the local market prefer to enter through acquisition since the market knowledge that they lack is easier to acquire in this way. Also, as for the growth rate of the firm, those with very high as well as very low rates also prefer to purchase a local company. Thus, the excess of human resources in the firm leads to an intention to start new activities and a need for complementary inputs that can be found in the local market. And in the case when a

foreign unity has a large size, the investor also tends to choose an acquisition to enter the market. The authors also mention that those companies which are followers and want to enter faster might also choose acquisition (Hennart, Park, 1993).

It has already been mentioned in the previous part that producer goods manufacturers do not have a need for an established brand, however, the firms which manufacture consumer goods will rather choose an acquisition mode in order to have an advantage of a well-known brand name in the local market. Also, opposite to Japanese investors, the firms which have a difficulty of borrowing financial assets from a bank will rather favor acquisitions. The firms, which enter a foreign market in the industry where any capacity-increasing operations are undesirable, tend to opt for acquisitions as well (Hennart, Park, 1993).

The paper published by Shaver (1998) also confirms the suggestions that companies which have a lot of subsidiaries in the foreign environment, lack international experience, are in some slowly growing and less concentrated industries, tend to enter the foreign through an acquisition (Shaver, 1998).

As it has been mentioned in the previous part, Brouthers and Brouthers (2000) presented two contrary ideas in the cultural context, one of which suggests that a company that plans to enter a slowly growing market will prefer an acquisition since such a market allows little capacity expansion. The other idea suggests that a firm might want to enter a fast-growing market through an acquisition since it allows to enter fast and take advantage of the opportunities it offers. The paper also suggests that due to high risks, a firm entering a market with a great cultural distance will rather enter through an acquisition in order to minimize those country risks (Brouthers, Brouthers, 2000).

Another idea suggested by Brouthers and Brouthers (2000) is concerned with the firms from countries with a low level of uncertainty avoidance. It was mentioned that these firms would prefer to enter through an acquisition since they are open for a change and might be willing to improve their organizational inefficiencies (Brouthers, Brouthers, 2000).

However, the idea concerning cultural distance was not confirmed in the paper, as it did not influence the choice between these two market entry modes. The paper also confirmed, in contrast to previous research, that firms with high diversity levels prefer to enter by creating a new venture (Brouthers, Brouthers, 2000).

As it has been mentioned in the previous chapter, the paper published by Görg (2000) regards three alternative scenarios, two of which are acquisitions: (1) acquisition of a low-technology firm and (2) acquisition of a high-technology firm. One of the assumptions made in the paper is that the marketing costs are lower if the investor decides to purchase an existing firm since the firm has already some knowledge and experience in the local market (Görg, 2000).

According to the findings of the paper, an acquisition of a high-technology firm is the most preferable scenario of the three. The effect also grows if the cost of acquiring market knowledge is high or if the adaptation cost for a low-technology firm is higher than for a high-technology firm. However, if the take-over premium for a low-technology firm is high, this scenario might appear the most profitable (Görg, 2000).

The research conducted by Anand and Delios (2002) found evidence that if the technological intensity in the industry in the host country is higher than in the home country, a firm will rather enter through an acquisition. As it has already been mentioned, the conclusion that the authors drew is that technological intensity (or the so-called “capability-seeking argument in this case) is not limited to any specific industry or sector. However, a capability-seeking investor will prefer a market entry through an acquisition. The authors also found that advertising intensity does not have much influence on the market entry mode choice, but also that investors might choose an acquisition mode in order to exploit the technological advantage of the local firm. Yet, according to the study, “when the motivation for investment is technology seeking, the advertising effect is nonexistent” (Anand, Delios, 2002, p. 130).

According to the work of Harzing (2002), if a firm needs to align with the conditions of the host country, it should purchase a local firm with its established network in the host country environment. Thus, those companies which follow a multidomestic strategy tend to choose an entry through an acquisition, which the author has also confirmed by the data analysis (Harzing, 2002). This was also partially supported by the study conducted by Tan (2009), in which the firms that offer customized products tended to choose acquisition as a market entry mode (Tan, 2009).

Industrial concentration is a key indicator of industrial competition in a host country, as it has been seen in the paper introduced by Cheng (2006). Thus, as it has already been mentioned, when a greenfield venture is set up in the market, it is going to intensify the existing competition by increasing the concentration in that specific industry. Therefore, when entering a foreign market with a high level of industrial concentration, the investor might prefer an acquisition, in

order not to damage the market situation in the industry in that market (Cheng, 2006). Figure 6 presents a short summary of all the hypotheses suggested in the study and the preferable choice of a market entry mode among greenfield, acquisition, and brownfield for each situation.

The study by Demirbag et al. (2008) mentioned in the previous chapter also considered the perceived level of potential of a host market. Due to the argument that an entry via acquisition is faster than via greenfield, it is logically consistent that in a fast-growing market, the entrant might prefer to choose to acquire an existing local firm. In this concern, the authors suggested that a firm would rather prefer to enter via an acquisition when expanding its activities into a host country with a significant level of market potential. However, this argument will not work for young industries with high growth speed since there might be no firm available for an acquisition. This suggestion has been supported (Demirbag et al., 2008).

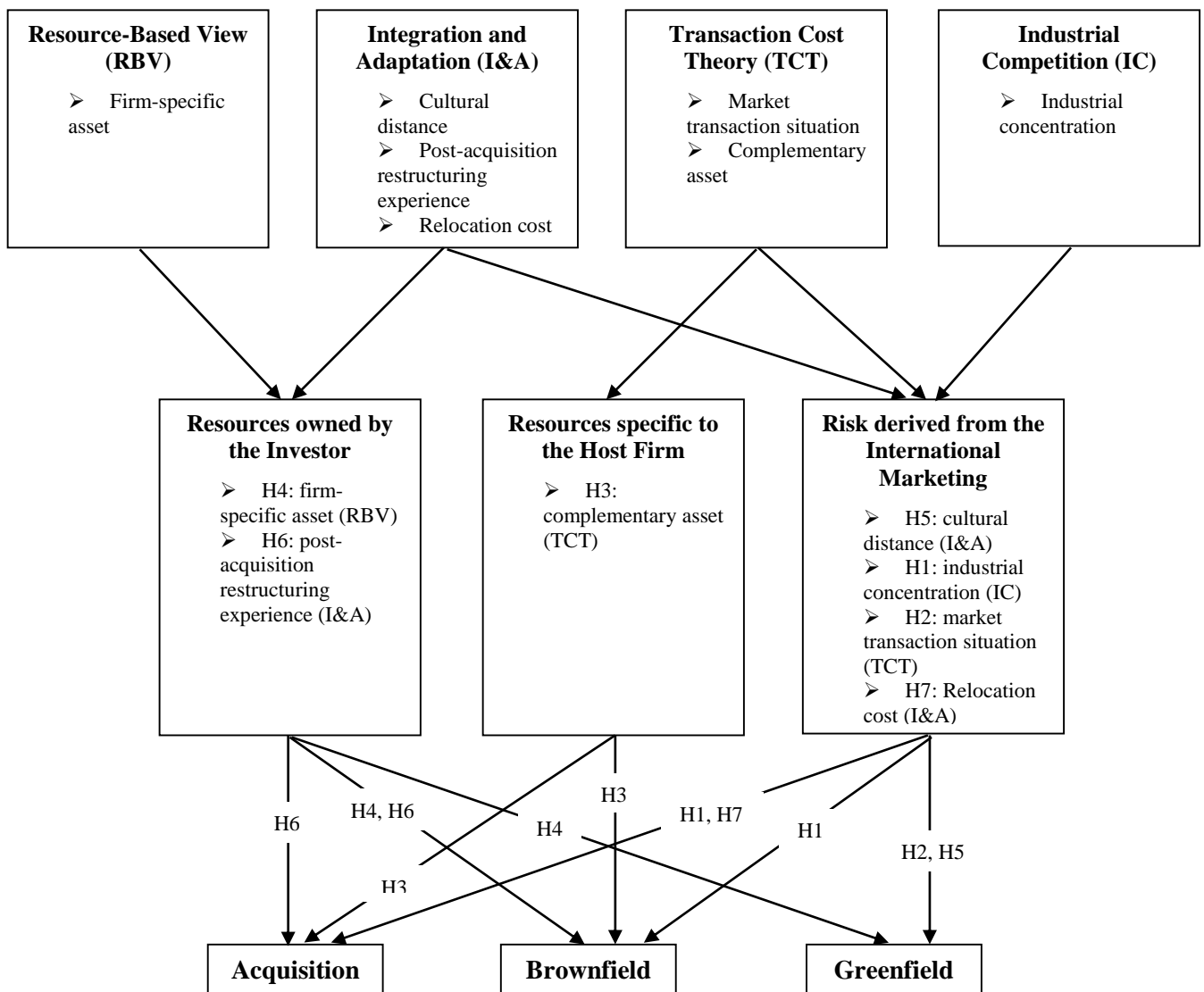


Figure 6. Conceptual Framework and Hypotheses on FDI Mode Choice (Cheng, 2006, p. 206)

Another suggestion presented in the study was that in the case when the perceived input quality is high, an entrant will rather choose an acquisition. Thus, when a firm seeks for the local resources and is interested in their high quality, it will prefer to acquire a local firm to have an access to those resources. Among such inputs are not only human resources as mentioned before, but also a marketing network, knowledge-based resources, availability and quality of complementary resources, as well as low cost of the human resources or their superior quality. This suggestion has also been supported by the results of the research (Demirbag et al., 2008).

As it has been mentioned in the previous chapter, Nagano (2013) researched separate aspects of the institutional environment of a host country and their impact on the choice of a market entry. According to the author, a parent firm might want to choose an acquisition, if the security and human rights protection law of the host country is advanced (Nagano, 2013).

The suggestion that an enhanced security and human rights protection law of a host country motivates foreign firms to enter through an acquisition was also confirmed. In fact, a reform of this law showed influence for both of the entry modes, yet, the impact on the number of acquisitions was significantly larger (Nagano, 2013).

As it has already been mentioned in the previous chapter, Cai and Karasawa-Ohtashiro (2018) reviewed the cost of establishing a new firm in a foreign market deeper and came to a conclusion that if the fixed costs of starting a new business are relatively high, the parent company might choose to enter through an acquisition of a more efficient local firm. The suggestion was supported by the results of the study (see 2.2) (Cai, Karasawa-Ohtashiro, 2018).

3.3 Brownfield

The literature on the market entry modes exists in considerably large amounts regarding greenfield investment and acquisition, however, the subject of brownfield investments has been quite poorly researched so far. One of the sources of the research is the paper published by Meyer and Estrin (2001) which studied market entry through a brownfield investment in emerging markets (Meyer, Estrin, 2001). The authors provided the following definition of a brownfield entry mode:

“A brownfield is a foreign acquisition undertaken as a part of the establishment of a local operation. From the outset, its resources and capabilities are primarily provided by the investor, replacing most resources and capabilities of the acquired firm” (Meyer, Estrin, 2001, p. 577).

In fact, brownfield is a hybrid entry mode having features of both acquisition since a local company is purchased, and greenfield, since the restructuring of the acquired firm is so extensive that it is extremely close to a greenfield investment. According to this research, such investments might be very attractive in the case when there is a need in local resources, however, these are not sufficient for the operation (Meyer, Estrin, 2001).

Figure 7 demonstrates a model of entry mode choice provided by the authors, in which the resources required for the strategic objectives are divided into three groups: (1) resources held by local firms; (2) resources held by the investor; and (3) resources available at the market. The model represents the optimal entry according to the availability of all the three types of resources (Meyer, Estrin, 2001).

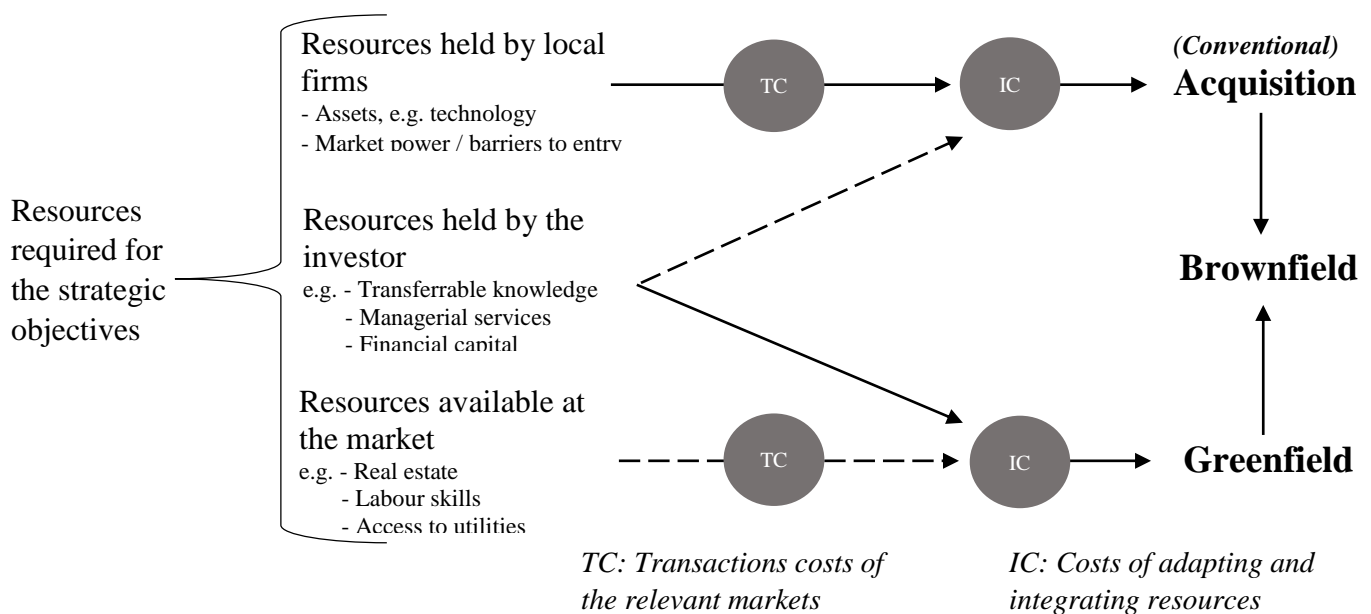


Figure 7. A model of entry mode choice (Meyer, Estrin, 2001, p. 578)

The authors mention that in case of a brownfield investment, due to the requirements for a target firm to take over being less specific than in case of an acquisition, the investing company can reduce its searching costs, however, some conflicts may occur during the negotiations about the restructuring of the acquired firm. They also refer to the inefficiencies that are quite common in the emerging markets and can cause some extra costs and delays or even hinder the establishment of a greenfield plant. Yet, these inefficiencies can be reduced by using a brownfield mode (Meyer, Estrin, 2001).

Figure 8 presents the decision tree, that was suggested by Meyer and Estrin (2001) helping a firm to choose the optimal market entry mode. In the model, the external expansion means an acquisition of an existing firm, and the internal expansion means setting up a new venture. This

decision tree has two stages and shows two cases in which a brownfield investment should be chosen (Meyer, Estrin, 2001).

The first case where a brownfield might be chosen is if the investor purchases a local firm which, however, does not have sufficient resources at its disposal, or if the transaction costs for corporate control are too high. In this case, some new facilities can be added to the acquired firm. The second option is when the investor decides to start up a new facility in the foreign market, however, some assets have to be purchased at the market and these are in possession of local firms. Such assets which cannot or should not be separated from the firm are called critical resources. Those can be, for instance, a legal permission which can only be provided by a local partner, local distribution channels, patents, and brand names (Meyer, Estrin, 2001).

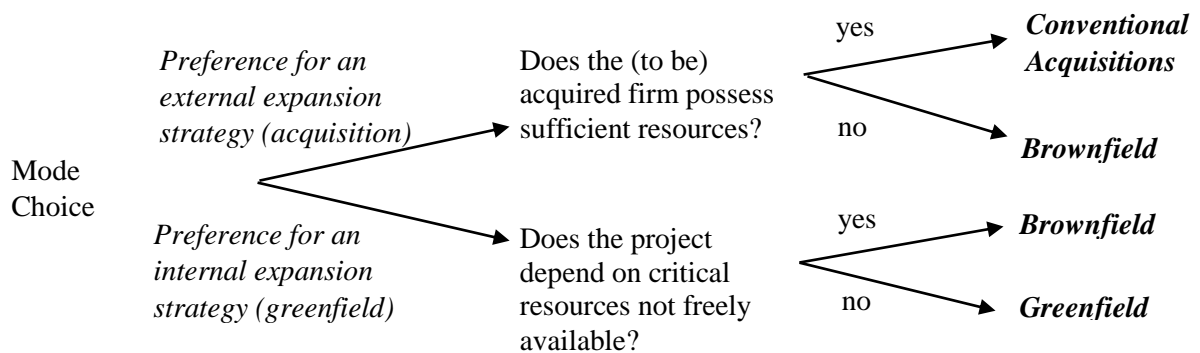


Figure 8. A model of entry mode choice (Meyer, Estrin, 2001, p. 581)

As it has been mentioned in the previous chapter, Cheng (2006) stated that a firm which decides to enter a foreign market with a high level of industrial concentration, will not choose a market entry mode that can increase the concentration and, therefore, intensify the competition in the industry. Thus, this firm needs to establish such a subsidiary that does not add to the capacity of the market, and while, a brownfield investment is a hybrid form between the two modes, it just like the acquisition mode does not create any extra capacity. According to the results of the research, a brownfield is a very good option to compromise between greenfield and acquisition in order to reduce both relocation and transaction costs (Cheng, 2006).

In 2015, Anderson and Sutherland focused their research on the entry of firms from emerging markets into developed markets. One of their suggestions was based on the motive of such firms to make a fast entry and to get access to strategic assets in the foreign market, for which they tend to prefer acquisitions. The suggestion received confirmation, therefore, acquisitions in developed markets made by firms from emerging markets are much more motivated by the access to the strategic assets than greenfields (Anderson, Sutherland, 2015).

3.4 Recent Findings

Demirbag et al. conducted a research of a foreign direct investment from industrial countries to an emerging market of Turkey. For the study, the authors made a comparison of all investments made by establishing a greenfield venture and an acquisition between industrial and developing countries. Figure 9 presents the graphs of these changes between 1987 and 2001 (Demirbag et al., 2008). This finding suggests that there is some correlation between the economic and political environment due to the different types of markets and different time periods.

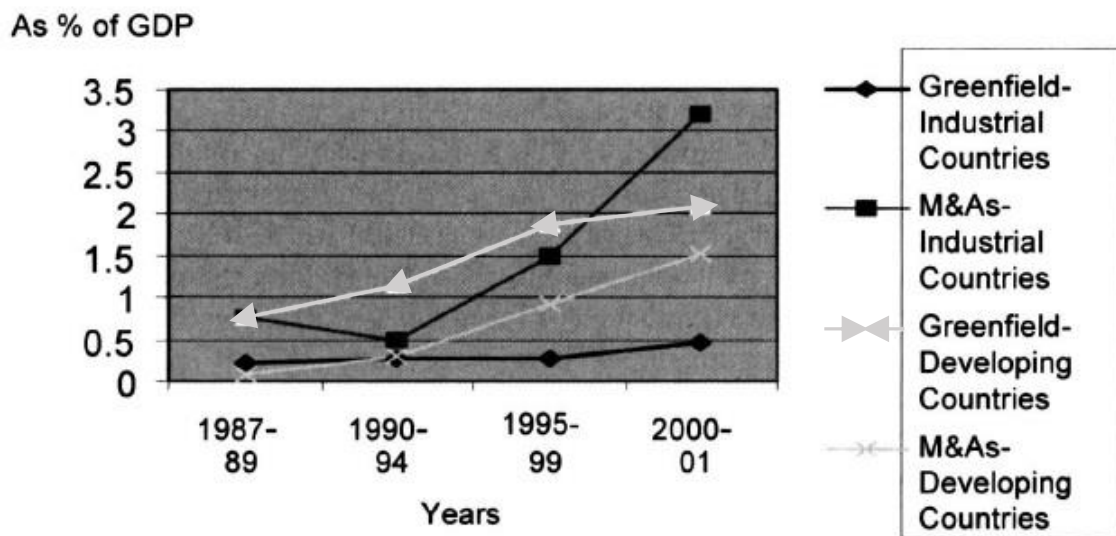


Figure 9. Pattern of FDI (Greenfield vs. M&As) (Demirbag et al., 2008, p. 7)

The authors also divided all the factors that might influence the choice of a market entry mode, especially between the two equity modes – greenfield and acquisition – into three groups:

- Host country-specific factors;
- Investing firm-specific factors; and
- Affiliate-specific factors (Demirbag et al., 2008).

In the host country-specific factors that affect the entrant's decision, the authors included host country investment risk (see chapter 2.1), market potential (see chapter 2.2), government regulations and incentives (see chapter 2.1), and comparative cost advantages and quality of inputs (see chapter 2.1 and chapter 2.2 respectively) (Demirbag et al., 2008).

The investing firm-specific factors include input dependency (see chapter 2.2), extent of diversification (see chapter 2.1), previous commercial association which is only a part of the entrant's international experience since it only includes its commercial experience in the host country, cultural distance (see chapters 2.1 and 2.2), and parent size. As for the previous

commercial association of the entrant, scholars do not agree on the way it affects the decision. Some of them (Wilson, 1980; Caves, 1982; Madhok, 1995; Demirbag et al., 1995; Larimo, 2003) suggest that if a parent firm has some previous commercial association with the host country market, it might have lower transaction costs, hence, it is easier for it to enter via acquisition. However, Larimo (2003) also argues that a company with previous experience in the host country market might have collected enough market knowledge and, therefore, can establish a completely new venture with the required market knowledge already in-house (Demirbag et al., 2008).

The researchers also do not agree on the influence of a parent firm size. While some of them (Hennart, Park, 1993; Kogut, Singh, 1988; Caves, Mehra, 1986) state that if the entrant has significant size in its home country, it might have enough financial resources for establishment of a new venture – a greenfield investment, as a company of a smaller size might not have the necessary financial means at its disposal and would rather enter via acquisition. However, according to other researchers (Padmanabhan, Cho, 1995; Barkema, Vermeulen, 1998; Shaver, 1998; Harzing, 2002; Yip, 1982; Mudambi, Mudambi, 2002), larger firms prefer to enter through acquisition since their superior control systems and integration capabilities allow them to make a good use of a purchased firm (Demirbag et al., 2008).

Among the findings of the study, the impact of the input dependency of the entrant was confirmed and supported the previous results (Hennart, Park, 1993) that the entrant will tend to prefer an acquisition in order to have an access to the local resources. Also, the higher level of diversification of the entrant, the bigger the motive to enter through an acquisition in order to get an access to the industry-specific assets and/or make use of the firm's sophisticated management control systems (Demirbag et al., 2008).

According to the results of the study, firms with a larger amount of experience in the host country or previous commercial association with it know better how to manage an acquisition in the specific market and, therefore, prefer acquisitions over greenfield investments. However, the study has not provided any confirmation of the influence of cultural distance and the size of a parent firm on the choice of a market entry mode (Demirbag et al., 2008).

The third group of factors – the affiliate specific factors – includes the ownership pattern and the resource intensity. There has not been any consistent evidence on the impact of the ownership pattern or the equity control. As for the resource intensity, it should be mentioned that if a firm desires to enter a resource-intensive market, it might have a resource-seeking

motive to enter that market. However, in this concern, there has also been no evidence of consistency since the host countries of resource-intensive industries would prefer foreign entrants to create greenfield ventures, while the entrants might prefer acquisitions in order to reduce the number of financial resources required for the entry. Yet, if the entry does not require any high capital investments, the firm might decide to enter via a greenfield investment (Demirbag et al., 2008).

As it has been seen in the results of the research conducted by Demirbag et al. (2008), the level of ownership plays a role for the choice of a market entry mode. According to the findings, if a company decides to establish a wholly owned subsidiary in an emerging market, it might prefer to enter through a greenfield investment. The impact of the resource intensity has also been confirmed and showed that, in a resource-intensive industry, the entrant might choose a greenfield entry mode over an acquisition. However, for a market-seeking investment in an emerging country, greenfield is associated with too much risk and might be too slow, therefore, an entry through an acquisition should be expected (Demirbag et al., 2008).

		Establishment mode	
		Greenfield	Acquisition
Ownership mode	Shared	1. Greenfield JV	3. Partial acquisition
	Full	2. Greenfield WOS	4. Full acquisition

Table 8. Modes of entry (Brouthers, Hennart, 2007, p. 399)

Some researchers also distinguish the equity market entry modes by the ownership mode. Thus, there are both greenfield investments and acquisitions with shared or with full ownership. Table 8 displays the types of subsidiaries by the ownership type.

According to the suggestion made by Dikova and Witteloostuijn (2005), firms that decide to enter a foreign market through a greenfield investment prefer to establish wholly-owned subsidiaries, while those which enter through an acquisition tend to choose a joint venture – a partial acquisition. These suggestions have also been confirmed by the results of the study since most firms that decide to acquire a local firm have a motive to seek market knowledge. And the best way to obtain the needed knowledge is by partnering with a local competitor. Apart from the knowledge, the investor can also enter the market faster and minimize the possible risks (Dikova, Witteloostuijn, 2005).

Tan (2009) presented characteristics of doing business for the two entity market entry modes in two cases: when the interdependence between the parent and the subsidiary is strong and when it is weak. These characteristics are displayed in table 9:

	Weak and codifiable interdependence	Strong and complex interdependence
Acquisition entry	1. Quick access to subsidiary-level managerial resources Low demand for headquarters-level managerial resources to manage interdependence	2. Quick access to subsidiary-level managerial resources High demand for headquarters-level managerial resources to manage interdependence
Greenfield entry	3. Slow accumulation of subsidiary-level managerial resources Low demand for headquarters-level managerial resources to manage interdependence	4. Slow accumulation of subsidiary-level managerial resources Low demand for headquarters-level managerial resources to manage interdependence

Table 9. Interdependence within a multinational enterprise and foreign market entry strategies (Tan, 2009, p. 1050)

Slangen (2011) presented a new theory in the context of international markets which is called communication-based theory and is an approach specially designed for the choice between a greenfield investment and an acquisition when a firm penetrates a foreign market. According to the author, a firm uses communication with its subsidiaries to exchange the knowledge, to coordinate the work within the company network, to monitor and to guarantee socialization (Slangen, 2011). This theory, however, is somewhat related to the cultural distance between the home and the host countries, with communication being a part of it.

Communication is “a transmission process in which a message travels across space (a channel) from one point to another” (Krone et al., 1987, p. 22). “The message consists of verbal elements (i.e. spoken or written words), which are transmitted from a sender to a receiver through a channel, defined as ‘the vehicle or medium in which a message travels’” (Krone et al., 1987, p. 21; Slangen, 2011, p. 1701). Among the main channels through which this message between a parent firm and its foreign subsidiaries is transmitted are a face-to-face conversation, telephone,

video conferences as oral channels and letters, faxes, and electronic mails as main written channels (Slangen, 2011).

The author also distinguished 4 reasons for the communication between a parent firm and its foreign subsidiary:

- Technological and market knowledge exchange;
- Coordination of activities of a subsidiary with its own activities or the activities of other subsidiaries in its network for the synergy achievement (i.e. economies of scale or scope);
- Monitoring of the activities of the subsidiaries;
- Socialization of the workforce of the subsidiaries in order to implement the parent firm's norms and values into the subsidiary's business culture, especially when some cultural differences exist (Slangen, 2011).

Slangen also underlined two main types of barriers that can interfere when communicating with a foreign firm: (1) geographic and (2) linguistic barriers. Geographic barriers of communication between a parent firm and a subsidiary arise because of the geographic distance between the home and the host country. The larger the distance, the higher the cost of communication since the travel costs are high, and a face-to-face conversation is difficult to organize and expensive (Slangen, 2011).

Linguistic barriers consist of two components: (1) native and (2) foreign language barriers. A native language barrier exists when the home-country employees do not speak the language of the host country and the host-country employees do not speak the language of the home country and when the two languages are too different to decode even basic messages (Slangen, 2011).

Foreign language barrier arises if the host-country employees do not speak a third-country language (for instance, English language used in some multinational companies in Austria) used within the corporate network of the parent firm. The weaker the skills of employees in that language, the higher the barrier (Slangen, 2011).

Based on the theory, a few suggestions about the choice of a market entry mode were made. One of them hypothesizes that if the communication barriers between the home and the host country are high, the firm will prefer to enter through a greenfield investment since acquisitions require more communication than greenfields. However, if the parent firm plans to make its foreign subsidiary more or less autonomic, its communication is going to have rather occasional

nature, therefore an entry through a greenfield investment will be less necessary (Slangen, 2011).

However, the suggestion that the existence of communication barriers between the parent firm and its foreign subsidiary was not fully supported since the researcher has not found enough evidence for the foreign language barrier. Yet, for the subsidiaries which were planned to become autonomic, a parent firm did have this barrier as a motive to choose greenfield over acquisition (Slangen, 2011).

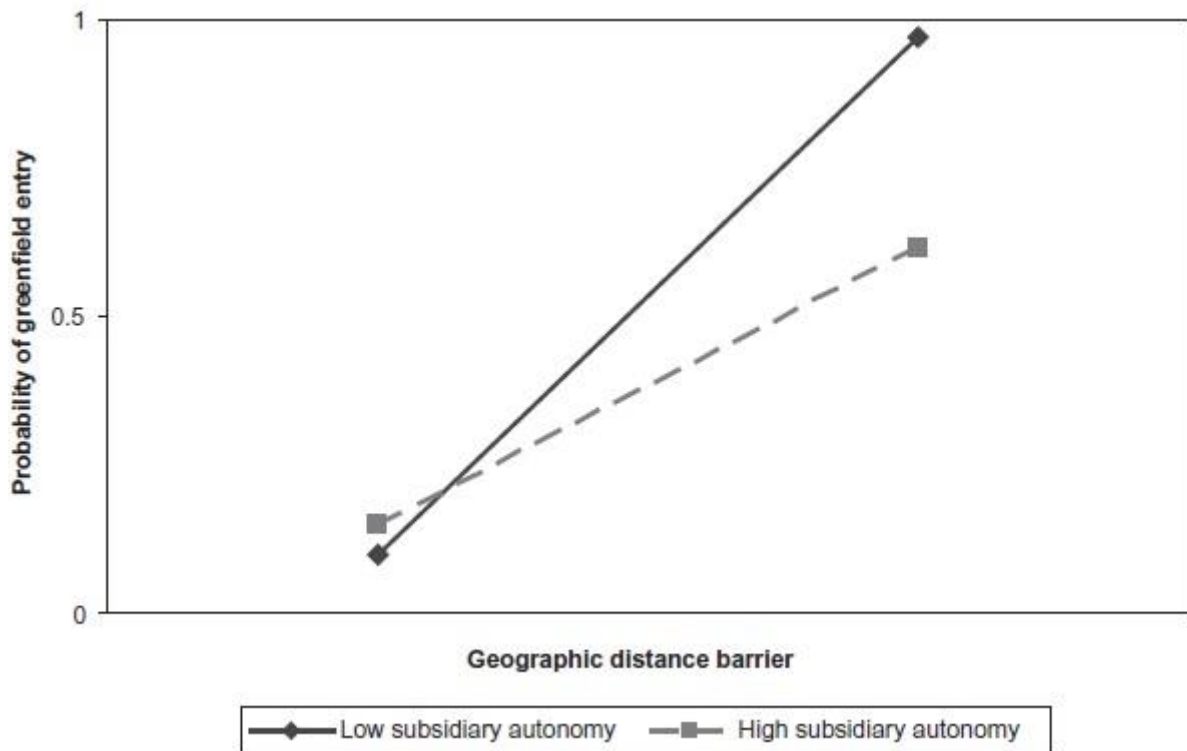


Figure 10. Relationship between geographic distance barrier and the likelihood of greenfield entry at high and low planned subsidiary autonomy (Slangen, 2011, p. 1717)

The second suggestion about the likelihood of entry through a greenfield investment being weaker in the case when the parent form gives its foreign subsidiary a lot of autonomy was confirmed by the results of the research for all the types of communication barriers. Figures 10, 11 and 12 present the relationships between each of three types of barriers for a low and a high autonomy level in a foreign subsidiary (Slangen, 2011).

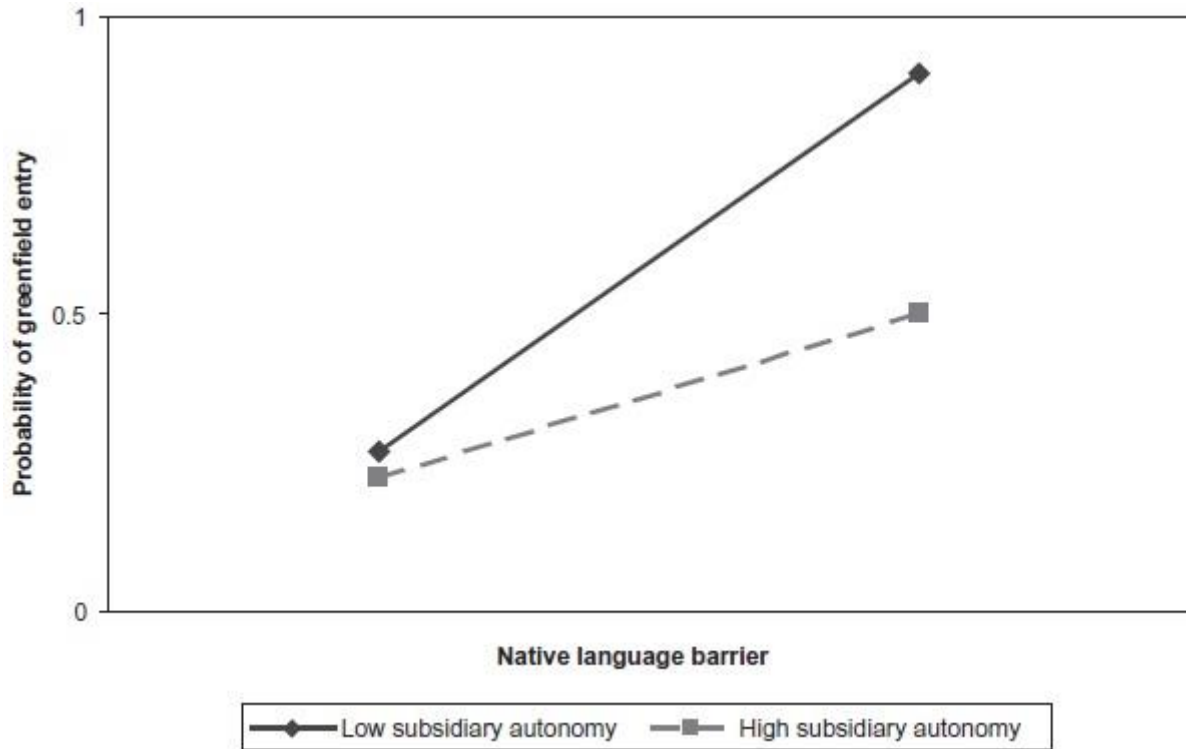


Figure 11. Relationship between native language barrier and the likelihood of greenfield entry at high and low planned subsidiary autonomy (Slangen, 2011, p. 1717)

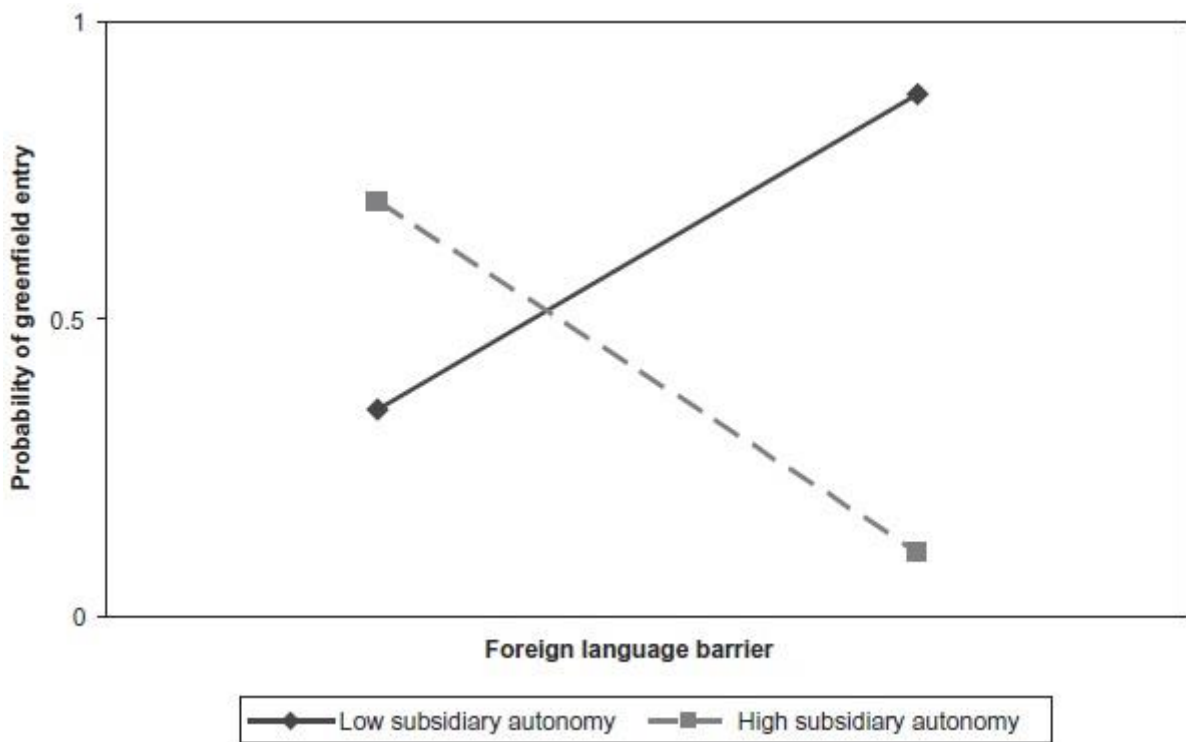


Figure 12. Relationship between foreign language barrier and the likelihood of greenfield entry at high and low planned subsidiary autonomy (Slangen, 2011, p. 1718)

Klimenko and Saggi (2007) analyzed the technical compatibility of the products manufactured by the parent firm and its foreign subsidiary in case of greenfield and acquisition. The scholars noted that if a firm enters through a greenfield investment, the higher the level of compatibility between the networks of an old and a new product, the higher the price of both of them. This works for both market entry modes, however, for the greenfield investment, the price increase is more significant than for the acquisition. The authors, thus, made a suggestion that if a parent firm decides to enter via greenfield, it chooses a greater level of compatibility than if it purchases a local business since the marginal benefit of the parent firm is higher in the new venture. According to the results of the study, “the presence of network externality reinforces the incentive to reduce competition because a stronger network effect leads to greater monopoly profit and a lower acquisition price” (Klimenko, Saggi, 2007, p. 202). Therefore, firms often prefer to acquire its competitor in a foreign market instead of facing competition (Klimenko, Saggi, 2007).

In 2007, Slangen and Hennart summarized the possibilities of a research design regarding the comparison of a greenfield investment to an acquisition which might be helpful for the future research referred to the factors of a choice of either of the entry modes. This summary is displayed in table 10:

Type of research design	To be used by scholars interested in	How to obtain reliable results?
One home country, multiple host countries	Host-country factors (e.g. institutional quality of host country)	- Control for parent, subsidiary, and industry-level variables
Multiple home countries, one host country	Home-country factors (e.g. cultural characteristics of home country)	- Control for parent, subsidiary, and industry-level variables, or focus on MNEs that are similar (e.g. in terms of experience) and/or active in a single industry - Control for other home-country factors
Multiple home and host countries	Home- and host-country factors	- Control for parent, subsidiary, and industry-level variables, or focus on MNEs that are similar (e.g. in terms of experience) and/or active in a single industry - Control for other home- and host-country factors
One home and host country	Parent, subsidiary, and industry-level factors	Results are likely to be reliable but are not necessarily generalizable

Table 10. Types of research designs and when to use them (Slangen, Hennart, 2007, p.425)

4. Analysis of hypotheses and detection of gaps in the research

In this chapter, the most important and/or common hypotheses from the studies which were analyzed in the previous chapters will be listed and explained. The description of the data used for the analysis and the method which provided the results of each study will also be presented.

4.1 Main hypotheses

The first two hypotheses were taken from Hennart and Park (1993) and correspond to some extent to the Uppsala Internationalization Model. According to the authors, if a parent firm decides to enter through an acquisition, it, thus, purchases local managers who know how to do business in the local market together with the local firm. The information which those local managers master is of great value to the foreign parent and consists of two parts: general knowledge of the economy in the host country and product-specific knowledge. The knowledge about the local economy is a tacit asset and can only be learned by doing business in the specific local market, as well as it can only be acquired apart from a local firm in disembodied form, which leads to high transaction costs. Therefore, if a firm lacks experience in a specific foreign market, it might prefer to enter through an acquisition (Hennart, Park, 1993). This hypothesis, thus, also corresponds to some extent to the transaction cost theory and to the resource-based view.

H1a: The less experience the parent firm has in a specific foreign market, the higher the probability it will enter that market through an acquisition (Hennart, Park, 1993).

Another idea expressed by the authors was that an acquisition is always more difficult to manage than a greenfield venture since it is not easy to integrate into the existing network. As it has already been mentioned in previous chapters, acquisitions of local firms are mostly associated with post-acquisition management problems. Thus, if a firm lacks experience in a specific foreign market, it might fear these problems and difficulties and will, therefore, decide to enter through a greenfield investment (Hennart, Park, 1993). This hypotheses also somewhat relates to the theory of mergers and acquisitions.

H1b: The more experience the parent firm has in a specific foreign market, the higher the probability it will enter that market through an acquisition (Hennart, Park, 1993).

The following three hypotheses are associated with the Transaction Cost Theory. If a firm needs some local complementary assets for its activities, it has to purchase them in the local market. However, some of them may not be available in disembodied form (separate from a local firm),

as well as their price might be too high leading to enormous transaction costs. In this case, it might be more efficient to buy a local firm and either integrate it into the existing network (acquisition) or adapt the local firm to the own network (brownfield) (Cheng, 2006).

H2: The greater the need of the parent firm for complementary assets specific to a host country, the higher the probability it will enter that market through an acquisition or a brownfield investment (Cheng, 2006).

Also, if the parent firm has to pay a high price in order to relocate some of its resources and facilities to a foreign market, it will lead to high transaction costs as well, making a greenfield and a brownfield investment less attractive. Therefore, the firm might decide to enter that market by purchasing a local firm and using its resources and facilities (Cheng, 2006).

H3: The greater the relocation costs, the higher the probability the parent firm will enter a foreign market through an acquisition (Cheng, 2006).

If the government of the host country sets no regulations for the entry of a foreign firm, then a parent firm will choose the market entry mode which will maximize the profit of the firm. In this case, if its fixed costs are relatively high, it might want to acquire a more efficient local firm, but when the fixed costs are low, it will establish a new venture in the foreign market (Cai, Karasawa-Ohtashiro, 2017).

H4: The greater the fixed costs of the parent firm in a foreign market, the higher the probability it will enter through an acquisition. The lower the fixed costs of the parent firm in a foreign market, the higher the probability it will enter through a greenfield investment (Cai, Karasawa-Ohtashiro, 2017).

The following seven hypotheses are rather associated with the Institutional Theory. The first hypothesis is also related to the theory since multinational experience includes the knowledge of the institutional routines, norms, and rules. According to it, the parent firm that has a lot of experience will have well established own routines which it can use in every new foreign market. Therefore, it might be more efficient for them to create a new venture in a host country. On contrary, those firms which lack such routines and, thus, the international experience, will rather decide to learn from a local firm and enter through an acquisition (Brouthers, Brouthers, 2000).

H5: The more international (multinational) experience the parent firm has, the higher the probability it will enter a foreign market through a greenfield investment (Brouthers, Brouthers, 2000).

Since those companies that normally enter foreign markets through acquisitions develop special routines for the adaption of a purchased firm to the existing business network, those which have not developed such routines might prefer to enter via a greenfield investment. (Dikova, Witteloostuijn, 2005). This also reflects the hypothesis suggesting that firms that are concerned with post-acquisition management problems will prefer to enter as a greenfield venture. Also, if a parent firm has a positive experience of acquiring local firms in foreign markets, it might want to repeat its own success and will tend to enter through an acquisition (Dikova, Witteloostuijn, 2005).

H6a: The more greenfield experience the parent firm has, the higher the probability it will enter a foreign market through a greenfield investment. The more acquisition experience the parent firm has, the higher the probability it will enter a foreign market through an acquisition (Dikova, Witteloostuijn, 2005).

However, if a firm has collected knowledge of entering through a greenfield, it might want to use the knowledge by entering as an acquisition. “The complex post-acquisition learning process that is initiated by the inevitable adaptation to the new circumstances will create a clash between different organizational cultures and ideologies, and will eventually eliminate ‘the rigidities and inertia’ by an expansion of the old organizational knowledge with new practices and routines” (Vermeulen and Barkema, 2001, p. 461; Dikova, Witteloostuijn, 2005, p. 8). Conversely, the firm that has a lot of experience of entry by an acquisition might need to use its knowledge to enter through a greenfield investment (Dikova, Witteloostuijn, 2005).

H6b: The more greenfield experience the parent firm has, the higher the probability it will enter a foreign market through an acquisition. The more acquisition experience the parent firm has, the higher the probability it will enter a foreign market through a greenfield investment (Dikova, Witteloostuijn, 2005).

Also, those firms which have entered via an acquisition previously might have developed their own post-acquisition restructuring routines and might want to use them in the future. Thus, as it has already been mentioned in hypothesis 6a, however, with an addition of a brownfield investment:

H6c: The more post-acquisition experience the parent firm has, the higher the probability it will enter a foreign market through an acquisition or a brownfield investment (Cheng, 2006).

When a parent firm plans to enter an emerging market, it has to deal with the fact that its economic and political situation might not remain the same. This firm always has to be prepared for a drastic change in the “rules of the game”, for restructuring and privatization programs, legal and institutional reforms, liberalization of markets etc. These risks altogether with the post-acquisition management problems might make a purchase of a local firm a very unattractive matter, therefore, a parent firm will be expected to create a greenfield venture in such a local market (Dikova, Witteloostuijn, 2005).

H7a: The greater the instability in a host country, the lower the probability the parent firm will enter that market through an acquisition (Dikova, Witteloostuijn, 2005).

Also, according to Cheng (2006), in a parent firm enters a market with a lot of imperfections, especially a developing market, a purchase of a local firm might also be inhibited by some long and inefficient negotiations, bureaucracy, long searches for a suitable firm etc. In this case, an establishment of a greenfield enterprise will be a more efficient option (Cheng, 2006). However, this hypothesis is close in its logic to the previous one.

H7b: The more regulatory restrictions there are in a foreign equity market, the higher the probability it will enter a foreign market through a greenfield investment (Cheng, 2006).

The next hypothesis also concerns entry into an emerging market, however, the author separated the investment risk as the most important determinant of market entry choice. Thus:

H8: The higher the investment risk in a foreign market, the higher the probability the parent firm will enter it through a greenfield investment (Demirbag et al., 2008).

Nagano (2013) conducted an analysis of literature concerning the existence of rights protection laws in different countries and their influence on different types of entity market entry modes. Since some of the laws had an influence on a greenfield venture and others only on an acquisition, the following hypothesis was made:

H9: The greater the enhancement of IPR protection law in a foreign market, the higher the probability the parent firm will enter it through a greenfield investment. The greater the enhancement of SHR protection law in a foreign market, the higher the probability the parent firm will enter it through an acquisition (Nagano, 2013).

The following two hypotheses belong to the Theory of the Growth of the Firm. The first one suggests that according to the theory presented by Penrose (1959), those parent firms that lack in personnel might have no possibility to establish a greenfield venture, therefore, they will be forced to enter through an acquisition (Hennart, Park, 1993).

H10a: The fewer human resources the parent firm has, the higher the probability it will enter it through an acquisition (Hennart, Park, 1993).

Anand et al. (2002) also mentioned that if a parent firm plans to enter a foreign market in an industry where salesforce is used intensively, it might need more personnel than it possesses, thus, it might have to acquire a local firm with its local salespeople.

H10b: The more intensive the use of the salesforce in the industry, the higher the probability the parent firm will enter a foreign market through an acquisition (Anand et al., 2002).

According to the Mergers and Acquisitions Theory, an acquisition of a local firm might bring some benefits which are not obtainable via a greenfield investment. One of such benefits is the reduction of competition in the market when a foreign firm purchases its local rival. Moreover, in those industries where concentration is very high and, therefore, competition is very intensive, firms tend to prefer acquisitions to the creation of new ventures which might increase the competition (Hennart, Park, 1993). Brownfield ventures also do not increase concentration, therefore, they can substitute an acquisition in some cases (Cheng, 2006).

H11: The higher the concentration ratio in a specific industry in a foreign market, the higher the probability the parent firm will enter it through an acquisition or a brownfield investment (Hennart, Park, 1993; Cheng, 2006).

Also, in the industries which are characterized by fast growth, a foreign firm has to enter faster since the opportunity costs of delaying might be very high. Thus, such firms prefer to speed up their entry by purchasing a local firm instead of creating a subsidiary from a scratch (Hennart, Park, 1993). Demirbag et al. (2008) also refer to this market feature as a significant market potential.

H12a: The higher the growth of demand in a specific foreign market, the higher the probability the parent firm will enter it through an acquisition (Hennart, Park, 1993; Demirbag et al., 2008).

A contrary idea was expressed by Brouthers and Brouthers (2000), according to which markets with high growth rate provide more capacity for growth as a greenfield venture, therefore, the authors also decided to test the following hypothesis:

H12b: In a market with a high growth rate, an entry through a greenfield investment is preferred (Brouthers, Brouthers, 2000).

Following ten hypotheses correspond with the Resource-Based View. According to Hennart and Park (1993), a parent firm with a sophisticated research and development department has developed a considerable competitive advantage in it and will tend to transfer it to the local market into which it extends its activities. This will help the firm install its usual practices in its foreign subsidiary. If the firm decides to purchase a local competitor, it will have to deal with its own workforce and the culture of the local firm. Moreover, the parent firm will then risk their tacit assets since it can be stolen and used outside of the firm in that foreign market. Thus, most firms with intensive research and development activities prefer to establish a new venture in a foreign market. (Hennart, Park, 1993).

H13a: The greater the R&D intensity of the parent firm, the higher the probability it will enter a foreign market through a greenfield investment (Hennart, Park, 1993).

Brouthers and Brouthers (2000), as well as Anand et al. (2002) and Dikova and Witteloostuijn (2005) also mentioned this suggestion, however, calling it “technological intensity” of a firm, thus:

H13b: The greater the technological intensity of the parent firm, the higher the probability it will enter a foreign market through a greenfield investment (Brouthers, Brouthers, 2000; Anand et al., 2002; Dikova, Witteloostuijn, 2005).

According to Anand et al. (2002), if the technological intensity of the foreign market is high, it might be more desirable to acquire a local firm and benefit from its capabilities, hence:

H13c: The greater the technological intensity of the host country, the higher the probability the parent firm will enter that market through an acquisition (Anand et al., 2002).

The next hypothesis suggests that if a parent firm decides to make a relatively large investment in a foreign market compared to its own size, it might lack in financial and managerial resources. Therefore, it is less efficient to establish a new venture, than to purchase a local firm that has at its disposal both financial and managerial assets (Brouthers, Brouthers, 2000).

H14: The smaller the size of the investment relative to the parent firm's size, the higher the probability the parent firm will enter a foreign market through a greenfield investment (Brouthers, Brouthers, 2000).

If the parent firm has very diversified activities, it might want to combine its existing firm-specific advantages with some of the local assets. For instance, if the firm possesses some sophisticated management control system, it is well compatible with an acquisition of a local firm (Hennart, Park, 1993). Thus, those parent firms which have not developed any of such firm-specific advantages might want to enter a foreign market through a greenfield mode (Brouthers, Brouthers, 2000).

H15a: The more diversified the parent firm, the higher the probability it will enter that market through an acquisition (Hennart, Park, 1993). Conversely, the less diversified the parent firm, the higher the probability it will enter that market through a greenfield investment (Brouthers, Brouthers, 2000).

Therefore, on contrary to the previous hypothesis, if a firm does not follow a diversification strategy but wants to enter a foreign market with a related product, it might choose a greenfield investment as an entry mode (Brouthers, Brouthers, 2000).

H15b: If the parent firm plans to produce a related product in a foreign market, it will enter that market through a greenfield investment (Brouthers, Brouthers, 2000).

Another important firm-specific advantage the parent firm might possess is marketing knowledge. This asset is also well combined with an acquisition of a foreign firm. In this case, the parent can purchase an existing local brand and use its own marketing skills to receive all the benefits the brand name can bring. For the reason of using their own and the local resources to their best, the parent firm will tend to enter through an acquisition (Hennart, Park, 1993). According to Anand et al. (2002), this is also true in the advertising-intensive industries.

H16: The greater the advertising intensity of the parent firm, the higher the probability it will enter a foreign market through an acquisition (Hennart, Park, 1993). Also, the greater the advertising intensity of the industry in a foreign market, the higher the probability the parent firm will enter it through an acquisition (Anand et al., 2002).

When a parent firm, especially one active in a labor-intensive industry, enters a foreign market with relatively cheap labor force, it might be primarily motivated to reduce its production cost. However, according to the previous research, if the firm uses its own skilled labor (managers)

and combines it with the local unskilled labor, its productivity might be higher in a new venture than if it uses local skilled labor as in an acquisition (Demirbag et al., 2008).

H17a: The more the cost of production is a motive to enter a specific foreign market for the parent firm, the higher the probability it will enter through a greenfield investment (Demirbag et al., 2008).

Yet, if the quality of skilled local cadres is high, it might be more effective to purchase a local firm with its managers (Demirbag et al., 2008).

H17b: The higher the perceived quality of the input assets in a foreign market, the higher the probability the parent firm will enter it through an acquisition (Demirbag et al., 2008).

According to Cheng (2006), if a parent firm has some firm-specific competitive advantages such as some tacit assets like firm-specific or product-specific knowledge, it might be more desirable for it to transfer it to a foreign market. However, it is not or is hardly transferable into an existing local firm, therefore, a new venture has to be created or a brownfield restructuring of a purchased firm has to follow (Cheng, 2006).

H18: The more specific the assets of the parent firm that need to be transferred to a foreign market, the higher the probability it will enter that market through a greenfield or a brownfield investment (Cheng, 2006).

The following four hypotheses refer to the Cultural Context. As it has been seen in Hofstede's cultural dimensions theory, different countries all over the world have sometimes absolutely not compatible cultures. Therefore, expanding activities to some countries might lead to management problems and decrease or, in other cases, increase the effectiveness of management. According to Brouthers and Brouthers (2000), if a firm enters a market with low distance, it might be able to realize its firm-specific advantages more effectively, thus:

H19a: When the cultural distance between a home and a host countries is small, an entry through a greenfield investment is preferred (Brouthers, Brouthers, 2000).

A contrary idea mentioned by Cheng (2006) suggests that high post-acquisition costs often result from two sides not understanding each other. In this case, these costs can be avoided if a firm, when it enters a market with a large cultural distance, chooses a greenfield investment. It is also suggested that the larger the cultural distance, the more difficult it is to partner with a local firm and its cadres (Cheng, 2006).

H19b: The greater the cultural distance between a home and a host countries, the higher the probability the parent firm will enter that market through a greenfield investment (Cheng, 2006).

According to Brouthers and Brouthers (2000), if a firm plans to enter a market with high uncertainty avoidance, it might not want to choose an acquisition since managers in such a host country are not ready to face differences and accept change. Another reason is that employees are also more change-resistant than in countries with low uncertainty avoidance (Brouthers, Brouthers, 2000).

H20: In a foreign market with high uncertainty avoidance culture, an entry through a greenfield investment is preferred (Brouthers, Brouthers, 2000).

If a parent firm enters a market where verbal communication barriers are expected, its communication costs will obviously increase. However, if it chooses to acquire a local firm, these barriers will be much higher than when it establishes a new venture, therefore, the communication costs will increase even more since more communication between a parent firm and its purchased subsidiary is expected. Also, in order to achieve monitoring of the newly acquired firm's activities, the level of monitoring has to be raised, which also leads to higher costs (Slangen, 2011).

H21: The higher the verbal communication barriers between a home and a host countries, the higher the probability the parent firm will enter that market through a greenfield investment (Slangen, 2011).

However, if a parent firm decides to make its foreign subsidiary autonomic, it might plan to exchange limited amounts of knowledge with the foreign unit, only coordinate its activities to a limited degree, rather monitor its results than its behavior, and only socialize foreign unit employees to a limited extent. Thus, the communication will be rather limited, hence, the communication costs will decrease which might make a greenfield investment less attractive (Slangen, 2011).

H22: The higher the level of planned autonomy of a foreign subsidiary, the smaller the benefits for the parent firm to enter a foreign market through a greenfield investment (Slangen, 2011).

The following three hypotheses concern the strategy that a parent firm follows. As it has been revealed in previous research, companies that follow a global strategy tend to standardize their products and copy the structure of their headquarters in their foreign subsidiaries, in order to

capture economies of scale and scope. It is easier to establish a new enterprise for this strategy since a local firm might bring its own culture and structure. On the other hand, those companies which follow a multidomestic strategy are rather concerned with the local responsiveness of each of their markets. They adapt their marketing and production to the local needs and wants, as well as to the requirements of the local government. Therefore, firms following this strategy might benefit more when they acquire a local firm (Harzing, 2002; Dikova, Witteloostuijn, 2005).

H23a: If the parent firm follows a global strategy, it will enter a foreign market through a greenfield investment. If the parent firm follows a multidomestic strategy, it will enter a foreign market through an acquisition (Harzing, 2002; Dikova, Witteloostuijn, 2005).

Also, if the interdependence between the headquarters and the foreign units is weak, it might follow a multidomestic strategy. Whereas if this interdependence appears to be strong, a global strategy is rather the case. Thus:

H23b: The weaker and more codifiable the interdependence between the parent firm and its subsidiaries, the higher the probability it will enter a foreign market through an acquisition. The stronger and more complex the interdependence between the parent firm and its subsidiaries, the higher the probability it will enter a foreign market through a greenfield investment (Tan, 2009).

If a foreign parent firm buys a local firm, it will have to rely on its managers to do the work since the headquarters might lack knowledge about the market and even in some firm-specific details. Therefore, the control over an acquisition might be more difficult than over a greenfield venture, hence:

H24: The parent firm will perform more control over a greenfield subsidiary than over an acquisition (Harzing, 2002).

To summarize the hypotheses mentioned in this section, table 11 displays the authors and the theories used in the selected hypotheses:

	Authors	Theories	Hypotheses
1	Hennart and Park (1993)	IM, TGF, M&A, RBV	H1a, H1b, H10a, H11, H12a, H13a
2	Brouthers and Brouthers (2000)	IT, M&A, RBV, CC	H5, H12b, H13b, H14, H15a, H15b, H19a, H20
3	Anand et al. (2002)	TGF, RBV	H10b, H13b, H13c, H16
4	Harzing (2002)	Strategy	H23a, H24
5	Dikova and Witteloostuijn (2005)	IT, RBV, Strategy	H6a, H6b, H7a, H13b, H23a
6	Cheng (2006)	TCT, IT, M&A, RBV, CC	H2, H3, H6c, H7b, H11, H18, H19b
7	Demirbag et al. (2008)	IT, M&A, RBV	H8, H12a, H17a, H17b
8	Tan (2009)	Strategy	H23b
9	Slangen (2011)	CC	H21, H22
10	Nagano (2013)	IT	H9
11	Cai and Karasawa-Ohtashiro (2017)	TCT	H4

Table 11. Summary of the selected hypotheses

4.2 Methodology and data used in the research

Hennart and Park (1993) used for their study data from two different resources: a periodical edition that collects data of Japanese subsidiaries in the U.S. by Toyo Keizai in 1987 and the data collected by Japan Economic Institute between 1981 and 1989. The authors only considered those firms where the stake of Japanese parent firm was at least 5%. Among 558 subsidiaries, 203 (36.4%) were acquisitions and 355 (63.6%) were greenfield investments. However, due to the lack of data from parent firms, the number of firms was reduced to 270, among which 114 (42.2%) were acquisitions and 156 (57.8%) were greenfield ventures. Acquisitions were slightly overrepresented in the research, as well as firms in the electrical machinery industry (Hennart, Park, 1993).

Due to the nature of the dependent variable, which was the market entry mode (1 for an acquisition and 2 as a greenfield investment), a binomial logistic model was used. The probability of acquisition was explained by the following independent variables:

- Technological intensity measured by its expenditures on research and development as a percentage of its domestic sales for the year before the entry, taken from the report from the Japanese parent to Japan's Ministry of Finance and from the Japan Company Handbook;
- Experience in the U.S. market at the time of the entry measured by the number of years between an entry and establishment of a manufacturing unit in the U.S.;
- The commonality of product between parent firm and subsidiary measured by a dummy variable being 1 if any one of the products produced by the subsidiary matched those produced by the parent firm, and 0 otherwise;
- The degree of product diversification measured by the Herfindahl-Hirschman type index with the sales breakdown of the Japanese parent the year preceding the entry published in the Japan Company Handbook;
- The ratio of the expenditures on media advertising to sales of the Japanese parent published in the company's report to the Finance Minister and in Toyo Keizai;
- Relative Value Index for each year based on data from OECD;
- The impact of the growth rate of the target industry in the U.S. on the market entry mode;
- A dummy variable for followers with 1 being a follower and 0 otherwise;
- Concentration measured by the Herfindahl-Hirschman index;
- The ratio of the average annual rate of growth of domestic employment over its rate of growth of domestic sales for each Japanese investor over the 5 year period before the entry and the relative size of the subsidiary;
- The financial leverage of a firm by the ratio of its long-term debt to its market value published in the report to the Minister of Finance (Hennart, Park, 1993).

Brouthers and Brouthers (2000) used in their study data obtained from The 10th Survey of European Operations of Japanese Companies in the Manufacturing Sector by the Japan External Trade Organization (1994). Among the countries in Europe where Japanese subsidiaries are active are the UK, France, the Netherlands, Germany, Belgium, and Luxembourg. Basic selection criteria included a subsidiary being wholly owned with Japanese parent having a stake of not less than 95% in the European affiliate and it being founded after 1980. The first selection included 409 firms, however, after adjusting to the missing data and excluded countries, the number was reduced to 136 subsidiaries (Brouthers, Brouthers, 2000).

The authors used logistic regression analysis to test their hypotheses. The dependent variable was the market entry mode (1 for greenfield investment, 0 for acquisition). Among the independent variables were listed the following:

- Relative investment size compared to the parent firm size measured by the total number of employees in the affiliate divided by the total number of employees in the parent using data from the Japanese Company Handbook, Japanese Trade Directory and Japan External Trade Organization;
- Technological intensity of a parent firm measured by the ratio of the expenditures on research and development to total sales from the Japanese Company Handbook;
- Multinational experience measured by the export ratio of a parent firm from the Japanese Company Handbook;
- Market growth by two five-year growth averages (1983-1987 and 1988-1992) for each of the industries from Panorama of European Industries;
- Cultural distance measured by the difference in culture between Japan and each of the target countries, a measure developed by Kogut and Singh (1988); four original dimensions presented by Hofstede (1980) were used;
- Firm diversity measured by the number of the Kompas UCS codes for each of the parent firms from Kompas Trade Directory of Japan;
- Product relatedness by comparing the product codes of a parent firm and a subsidiary from Kompas Trade Directory of Japan;
- Uncertainty avoidance measured by the willingness of a firm to accept managerial or organizational uncertainty from Hofstede (Brouthers, Brouthers, 2000).

In the research conducted by Anand et al. (2002), data of entries made in the US between 1974 and 1991 were used. The entries were taken from the compilations of foreign entry which the International Trade Administration at the Department of Commerce collected and published in the annual Foreign Direct Investment in the United States. The first criterion was entries made by major investing countries to the U.S. Among the home countries of selected entries in the first selection were Japan (4160 firms), the UK (2778 firms), Canada (2316 firms), Germany (1540 firms), France (924 firms), the Netherlands (745 firms), and Switzerland (556 firms). However, authors only left three countries after adaptation of the data: Japan, Germany, and the UK. The second criterion was the mode of entry with six categories of FDI: (1) mergers and acquisitions; (2) new plants; (3) joint ventures; (4) equity increases; (5) real estate purchases; and (6) others (branches, agencies, representative offices, stores, outlets, warehouses, and

unidentified transactions). From the six entry modes, only two were included in the selection – acquisitions and greenfield investments. After this data adaptation, a total number of 2175 entries remained (Anand et al., 2002).

The research used a grouped data approach and analyzed the proportions of acquisitions within a group. The dependent variable was a proportion of entries through an acquisition. Among the independent variables were the following:

- Technological capabilities of a firm measured by the difference in the expenditures on research and development between a host and a home countries from unpublished data by OECD, the Business Enterprise and Research Development;
- Brand equity measured by the expenditures on advertising for the host country as a percentage of sales from the Federal Trade Commission Line of Business Report (1977) for the U.S.;
- Salesforce measured by the expenditures on selling for the host country and the Salesforce employment as a percentage of total employment from a survey of the employment practices of U.S. firms by the Bureau of Labor Statistics, U.S. Department of Labor (Anand et al., 2002).

Harzing (2002) collected her data from an international mail survey sent in 1995-1996. The questionnaires were sent to CEOs and Human Resource Managers of 122 multinational companies and to the managing directors of 1650 subsidiaries of these firms in 22 different countries. The total number of subsidiaries from which a response was received was 287 from 104 headquarters. The overall sample included, thus, 97 acquisitions and 190 greenfield ventures. The number of home countries was nine and included Finland, France, Germany, Japan, the Netherlands, Sweden, Switzerland, the UK, and the U.S.A. (Harzing, 2002).

To analyze the impact of different variables on the choice of a market entry mode, a binomial logistic regression was conducted, with the entry mode being a dependent variable. The independent variables include the following:

- The time for which subsidiaries had been under the ownership of headquarters by the time of the study;
- Personal centralized control, bureaucratic formalized control, output control, and control by socialization and networks;
- The presence of expatriates measured by the number of expatriates as a percentage of the total number of employees in a subsidiary;

- Local responsiveness measured by a percentage of research and development and local production in the products sold by a subsidiary and the percentage of products and marketing modified for a specific foreign market (Harzing, 2002).

For the research conducted by Dikova and Witteloostuijn (2005), an international mail survey was sent to international companies from the EU with subsidiaries in countries with transition economies of Central and Eastern Europe. Headquarters of all the firms were based in 15 countries of the EU and had an ownership stake of at least 10% in their subsidiaries. From 2798 questionnaires, 2763 were responded, of which only 208 were usable (Dikova, Witteloostuijn, 2005).

In order to test the hypotheses, a binomial logistic regression analysis was conducted. The dependent variable was the diversification mode choice of the parent company in each subsidiary – acquisition or greenfield investment. As independent variables the following measures were used:

- Diversification mode experience measured by the number of countries worldwide in which the firm previously undertook greenfield or acquisition investments and the number of times greenfield or acquisition investments were established;
- International strategy identified by answers to four statements measuring whether international competition in the industry of the subsidiary is global and focused on achieving economies of scale or rather multidomestic and focused on local differentiation;
- Technological intensity measured by the ration of the expenditures on research and development to total sales;
- Investment relatedness measured by the answer of how related the respondents found the investment in terms of the product line and the line of business;
- Investment structure measured by five questions concerning general stability of political and social conditions, barriers to conversion and repatriation of income, level of corruption of politicians, ability of the government of a host country to enforce existing laws, efficiency of government agencies and institutions, legal restrictions to foreign ownership, government incentives to foreign investments, quality of telecommunication infrastructure, and quality of transportation infrastructure;
- Type of ownership distinguished between a wholly owned subsidiary and a joint venture (Dikova, Witteloostuijn, 2005).

The sample list for the research conducted by Cheng (2006) was obtained from the Foreign-Invested Institutions and the Chinese-Invested Institutions of Directory of Taiwanese Firms collected by the Investment Commission, Ministry of Economic Affairs in Taiwan (2004). The host countries where Taiwanese firms established their subsidiaries include China (including Hong-Kong), the Association of Southeast Asian Nations, Japan, the North American Free Trade Area, and the European Union. The total number of firms was 2298. The data were obtained by a mail survey sent in 2005 to senior level managers of Taiwanese manufacturing firms having international operations. 503 questionnaires were returned, however, only 466 of them were usable for further analysis (Cheng, 2006).

Logistic progress models were used for the research with the foreign direct investment mode being the dependent variable. Among the independent variables were listed the following:

- Industrial concentration measured by the concentration ratios of the four largest firms or the percentage of industrial products sold by those four firms;
- Market transaction situation measured by the Index of Economic Freedom as the degree of transaction restrictions in equity markets;
- Complementary assets measured by the relative parent firm size (to measure the need of a firm for complementary assets), the ration of the employment of the subsidiaries of each of those firms;
- Firm-specific assets measured by advertising intensity and research and development intensity;
- Cultural distance between Taiwan and each of the foreign markets measured by the Kogut-Sigh Index (Kogut, Sigh, 1988) based on four original cultural dimensions developed by Hofstede (1980);
- Post-acquisition restructuring experience measured by the number of previous foreign acquisitions of the firm;
- Relocation cost measured by the training and remuneration intensity (the ratio of expenditures for training, housing, cost of living, compensation, and benefits for relocation to a foreign market);
- Ownership measured by the degree of ownership: majority, half or minority ownership (Cheng, 2006).

Data for the research conducted by Demirbag et al. (2008) were obtained via two surveys. The research sample included foreign subsidiaries of parent firms with headquarters in the U.S. and Western Europe. Among the firm selection criteria were: (1) having headquarters in the U.S. or

Europe; (2) having a subsidiary with an ownership stake of over 10%; and (3) capital value of a subsidiary over 1 million USD. The first survey was conducted in 1995 by personal interviewing senior executives in several countries. The second survey was conducted in 1999 as an international mail survey. The database consisted of 145 foreign subsidiaries by parent firms from 15 countries, of which 99 were greenfield investments (68.3%) and 46 were acquisitions (31.7%) (Demirbag et al., 2008).

For the data processing, binomial logistic regression analysis was used. An entry mode of a foreign subsidiary was chosen as the dependent variable. Among the independent variables were 15 host-country-specific motives:

- Market size;
- Growth rate of Turkish economy;
- Political stability in Turkey;
- Economic stability in Turkey;
- Availability of qualified local personnel;
- Turkish government policy towards foreign direct investments;
- Costs of international transport and communication;
- Repatriability of profits;
- Availability of incentives;
- Availability of inputs of good quality (raw materials, labor etc.);
- Availability of inputs at low cost;
- Availability of tax advantages;
- Geographical proximity;
- Level of competition in the industry;
- Suitability of Turkish market to access neighbor markets (Demirbag et al., 2008).

A correlation matrix of these motives was calculated which showed intercorrelations between these motives – from low to moderate. After the factor analysis, six underlying factors were produced: (1) investment risk; (2) government regulations; (3) financial incentives; (4) quality of inputs; (5) comparative cost advantages; and (6) market potential. Among the control variables were the following: input dependency of a subsidiary; diversity of the parent firm; previous commercial association; cultural distance; size of the parent firm; natural resource intensity of the industry; ownership mode of a subsidiary; as well as date of entry, region of origin, and industry of a subsidiary (Demirbag et al., 2008).

The sample for the study conducted by Tan (2009) consisted of 720 Japanese subsidiaries in the US established between 1978 and 1990, among which 315 parent firms had an ownership stake of at least 10%. The sample was obtained from Japan's expanding manufacturing presence in the United States: A profile and from Kaigai Shinshutsu Kigyo Soran – annual issues. Adapted to the missing data, the sample included 278 subsidiaries of 160 parent firms active in 118 industries (Tan, 2009).

For the analysis, the two-stage method was used: at the first stage, entry mode choice was estimated by a probit regression, the second stage was accomplished by a correction regressor for the post-entry growth estimation. For the entry mode choice estimation, factors influencing the relative growth of a firm were identified: (1) whether the entry was a diversification for the parent firm; (2) partially or fully owned by the parent firm; (3) the size of the parent firm; (4) the research and development and advertising intensity of the parent firm; (5) the level of concentration in the industry; (6) the growth of the firm prior to entry; and (7) the unionization of the industry (Tan, 2009).

For the research made by Slangen (2011), data from a few secondary sources and a survey of senior managers in a total of 821 Dutch-based parent companies and their foreign subsidiaries were obtained. After adapting the sample to the missing data, a total number of 231 foreign subsidiaries was available, among which 115 greenfield investments (49.8%) and 116 acquisitions (50.2%) of 150 parent firms in 48 host countries with entries between 1996 and 2003 (Slangen, 2011).

To test the hypotheses, a logistic regression model was used. The mode of entry was taken as the dependent variable, while the independent variables included:

- Verbal communication barriers consisting of:
 - Geographical distance measured by the suboptimal geographic distance between the capitals of the host and the home country;
 - Native language measured by the composite scale developed by Dow and Karunaratna (2006); and
 - Foreign language barriers with a focus on the English language measured by the scores achieved at the Test of English as a Foreign Language in that country;
- Subsidiary autonomy from the questionnaire;
- Ownership structure of the subsidiary from the questionnaire (joint venture or a wholly owned subsidiary) (Slangen, 2011).

Data for the study conducted by Nagano (2013) were collected from the Overseas Business Operating Firm Databook by Toyo Keizai Shimpo Sha (FDI outflows, regional experience), from the United Nations (per capita GDP, population), from the World Bank (corporate tax), from the Japanese Ministry of Finance (bilateral trade), from the World Competitiveness Yearbook by IMD (legal environmental data), from Thomson Reuters's Thomson Bank One (research and development intensity, firm size, return on assets, and market to book). The sample consisted of Japanese firms and their subsidiaries in emerging markets of Eastern Asia between 1999 and 2009 (Nagano, 2013).

To test the hypotheses, a base case model was applied with an entry mode being two dependent variables – entry through an acquisition being 1 and 0 otherwise; entry through a greenfield investment being 1 and 0 otherwise. Among the independent variables were the following:

- IP rights score;
- SH rights score;
- IPR sensitive;
- SHR sensitive;
- Per capita GDP;
- Population;
- Bilateral trade;
- Corporate tax;
- Research and development intensity;
- Firm size;
- Market to book etc. (Nagano, 2013).

Cai and Karasawa-Ohtashiro (2017) have examined three different cases: export, acquisition, and greenfield investment. However, the authors only created mathematical models with their propositions and the analysis was not based on any primary or secondary firm data, but only on the proven facts and included lemmas and propositions (Cai, Karasawa-Ohtashiro, 2017).

4.3 Results

After analysis of the data obtained by Hennart and Park (1993), the scholars found support for their hypothesis that Japanese parent firm with intensive research and development consider a greenfield investment a more effective way to transfer these advantages to the U.S. Also, firms

which decide to enter industries with very low or very high growth rates, prefer to acquire a local firm. However, the hypothesis that suggested that firms with excess workforce have no need to enter through acquisitions, was not supported. Yet, due to the lifetime employment practices in Japan, excess cadres do not get fired, but get assigned to new tasks and activities. Many Japanese parent firms purchase local American firms in order to obtain more activities and to engage their labor force there. Another hypothesis that found support is the relative size of the investment: appears that the larger the size of the subsidiary, the higher the probability that the parent firm will enter through an acquisition. The authors also found that the experience in the US market, the advertising intensity of the firm, the firm's diversification ratio, and a few other factors, which were not included in this paper, did not show any significance. According to the authors, the Japanese companies with experience in the U.S. market have no need in entering through acquisitions, yet, feel more comfortable doing so as mentioned before. Also, those manufacturers producing consumer goods will rather enter through acquisitions in order to make use of the local brands, but those manufacturing producer goods will prefer greenfield investments since the brands have less importance for them. As the scholars mentioned: "the impact of diversification on entry mode occurs at the business, but not at the corporate level" (Hennart, Park, 1993, p. 24). Hence, diversification has no significant influence on the choice of a market entry mode. Concentration ratio factor also lacked significance in the results, as well as the ownership level of the subsidiary (Hennart, Park, 1993).

Brouthers and Brouthers (2000) also received results of their analysis confirming that firms which decide to make a relatively small investment in a foreign market, technologically intensive firms and those which have significant international experience, as well as massively diversified firms and those firms that enter industries characterized by high growth and/or high uncertainty avoidance, will prefer to establish a greenfield venture in the foreign market. The authors also found that cultural distance between the home and the host countries had no impact on the choice of a market entry mode (Brouthers, Brouthers, 2000).

In the results of the study conducted by Anand et al., it is mentioned that the intensity of research and development in the firm that decided to expand its activities into a foreign market did not show any consistent significance, therefore, its impact on the choice of a market entry mode is questionable. However, according to the authors, the relative technological intensity of the firm as a difference between the research and development intensities of the firm and the host market has a significant impact on the choice between a greenfield investment and an acquisition. The scholars also found that brands and salesforce are rather location-bound assets than technological capabilities. Also, brands motivate firms to purchase a local firm only in those

sectors where foreign parent firms can exploit its relative technological advantage. When a parent firm has a technology-seeking motive, the brand plays no role (Anand et al., 2002).

In the results of the analysis conducted by Harzing (2002), following factors found significance as for the choice of a market entry mode: technological intensity of the firm, level of international experience, cultural distance, relative size, year of the entry, and the strategy that the firm follows. According to the author, technologically intensive firms rather enter culturally distant markets making greenfield investments than acquisitions. The firms that have significant foreign experience and follow a multidomestic strategy, as it was hypothesized, prefer acquisitions to greenfield ventures. Also, companies that follow a global strategy tend to prefer greenfield investments. Another hypothesis that is a subject to this paper found confirmation: headquarters use higher levels of control in greenfield enterprises than in acquisitions (Harzing, 2002).

According to the results of the study by Dikova and Witteloostuijn (2005), those companies which had greenfield experience prior to the researched entry preferred to establish a greenfield venture in a new market, whereas those firms which had prior acquisition experience preferred not to enter through a greenfield investment. However, the authors could not prove the learning effect of the choice since the influence may come from the organizational routines these firms had established. The decision to make an acquisition if a firm has prior experience in mergers and acquisitions did not find significance, probably, due to lack of data. Also, the authors did not find any impact of a strategy that the firm follows on the market entry mode it will choose. The impact of the firm's research and development intensity found support in that the more technologically intensive the firm, the lower the probability it will enter a foreign market through an acquisition. Also, the support for the relatedness of a host country institutional instability and the choice of an entry mode was obtained: the more unstable the environment, the lower the chances the firm will make an acquisition in that market (Dikova, Witteloostuijn, 2005).

As the results of the analysis made by Cheng (2006) show, the economic freedom in a host country motivates Taiwanese manufactures to enter through a greenfield investment rather than an acquisition, however, not rather than a brownfield investment. Also, those firms that are seeking some complementary assets in a foreign market prefer to enter through an acquisition or by making a brownfield investment, as it has been hypothesized. Greenfield ventures are also preferred when a firm enters a market with a large cultural distance. Those Taiwanese companies which already had some successful acquisition experience prior to the entry and,

thus, faced the post-acquisition restructuring show tendency to enter by acquiring a local firm further on. Also, firms with high technological and advertising intensity prefer greenfield and brownfield investments to acquisitions. If the perceived relocation cost to a foreign market is relatively high, the firm will rather enter via acquisition (Cheng, 2006).

In the results received by Demirbag et al. (2008), the impact of investment risk in a host country, quality of input, and the perceived potential of the target market were confirmed. Also, dependency on the local assets, diversity of the parent firm, intensity of resource use, previous commercial association, and the ownership mode found support. Therefore, the higher the investment risk in the country of interest, the higher the possibility a parent firm will choose to establish a new venture. Also, if the potential of the target market and/or the quality of the inputs are high, the parent company will rather make an acquisition in that market. If a parent firm has a much-diversified activity, it will also prefer an acquisition to a greenfield investment. However, the size of the parent firm and the cultural distance between two markets have shown to be insignificant for the choice of a foreign market entry mode. Also, if a company is active in a resource-intensive industry, it will prefer to establish a new venture (Demirbag et al., 2008).

According to results of the research conducted by Tan (2009), companies which perform their activities in industries with the high importance of tacit knowledge prefer to enter foreign markets through a greenfield investment, while marketing-intensive firms tend to prefer acquisitions. Therefore, the authors could not confirm the hypothesis that a strategy that a firm follows has a significant impact on the market entry mode choice that it makes (Tan, 2009).

As it can be seen in the results of the analysis performed by Slangen (2011), the higher the geographic distance and the native language barriers between the parent firm and its subsidiary, the higher the probability that it will choose a greenfield investment over an acquisition. However, the hypothesis that the foreign language barrier positively affects the choice of a greenfield venture has not found any support. Yet, for all the three types of verbal communication barriers, the influence of planned autonomy for the subsidiary was confirmed, meaning that the higher the autonomy degree, the lower the attractiveness (or need) of a greenfield investment (Slangen, 2011).

According to the research outcomes by Nagano (2013), the enhancement of SHR protection laws positively influences only an entry through an acquisition, whereas if the IPR protection laws are a subject of enhancement, both market entry modes become more attractive for the

foreign investors. It is also impossible to find out which of the two entry modes is affected more than the other (Nagano, 2013).

Since, as it has already been mentioned in the previous chapter, the paper written by Cai and Karasawa-Ohtashiro (2017) is based only on mathematical formulas and models, the results of the research are difficult to interpret and have to be tested on some firm-level and industry-level data.

4.4 Existing gaps in the research and outstanding questions

The topic of the choice between a greenfield investment and an acquisition has been a widely discussed and researched issue for a few decades already. Although many scholars have been consistent in some of the factors that have an impact on the choice between these two market entry modes, many of the factors still remain not absolutely confirmed.

The authors who worked on their research in the 1990s and early 2000s have been persistent in their use of primary or reliable secondary data that have been not more than a few years old. However, as it has been seen in many of the following papers, quite old data from the previous decade have been majorly used.

Also, many of the recent papers have been focusing on some more specific issues that concern the choice between the two investment modes which might be really helpful if the results of such studies are then included in more general research, in order to distinguish the factors that always influence the decision, those which can only apply under some specific circumstances, and those which only seem to affect the decision, but do not play any significant role.

Another remark that needs to be mentioned is that many of the recent studies have been developing mathematical models, however, did not rest on any firm-specific or industry-specific data. These models need to be applied along with primary and secondary data in the research in order to let them serve their purpose.

The research has been also much focused on the performance of greenfield ventures and acquired local firms after the investment has taken place. This implication can be very useful, however, it has not been a subject for this paper, and, therefore, the studies that have been working in this concern have not been mentioned.

Among the most recent studies is, for instance, the research conducted by Chen (2018) with its analysis of an impact that an adoption by the parent firm of management delegation in a foreign market has on its behavior, including the choice of an entry mode, transfer of the technology etc. The topic is obviously much more specific than the simple choice between the two market entry modes. According to the results of the study, if management delegation is adopted by a firm, it will rather have a more optimal transfer of technology, especially if it enters the market through a greenfield investment. However, with a high cost of the technology transfer, the attractiveness of a new venture decreases and that of an acquisition grows (Chen, 2018). However, this study is another example of a research developing mathematical models and not implementing any data. Such analyses are also more difficult for comprehension and further development and/or verification based on firm-specific data.

Some studies, however, focused on the mathematical verification of some of the factor. For example, the paper written by Tihanyi et al. (2005) has analyzed previous literature on the impact of cultural distance on the choice of a market entry mode and has tried to prove that it is an important determinant for the decision making in this concern. However, the research could not provide any evidence of significant relationships between cultural distance and the choice of an entry mode, international diversification, and the performance of the parent firm. Yet, the influence of cultural distance has been proven for the firms that are based in the US. According to the results of the research, the parent firms with headquarters in the US prefer to make smaller investments and maintain lower equity positions in culturally distant host countries. As the authors have mentioned, this might be the case due to the fact that American managers are more risk-averse than those in other developed countries or to their determination to learn from this investment (Tihanyi et al., 2005).

Many of the factors which are connected to cultural distance have not been confirmed to have any direct influence on the choice of a market entry mode, which proposes for the future research to focus more on separate dimensions and on the circumstances, hence, other factors, under which the effect of the cultural distance is more obvious.

Some of the recent studies also concentrate their research on some specific markets, for instance, emerging markets or transit markets. The suggestion would be to focus on the difference of the degree to which the same determinants affect the choice of a market entry mode, when the parent company is based in different market types and when the target foreign market belongs to different types.

Many studies confirmed in the discussion to their research that some of their results have been influenced by the lack of data and a distorted representation of the entry modes. Although it is frequently difficult, it is still possible to make sure that representation remains stable in the working sample having the same proportions of different characteristics as the original sample. An idea would be to use a few samples where proportions between greenfield investments and acquisitions, the industries, in which firms are active, or the markets, where their foreign subsidiaries are located, are corresponding to the original sample obtained from a reliable source or reliable sources.

A trend of some of the recent studies is to focus on the firms which are based in countries with emerging economies since such multinational companies have obtained large market shares in developed countries in the past years. One of such studies was created by Rienda et al. (2018) with its focus on the market entry choices met by the multinational firms based in India. According to the authors, the cultural and administrative distances between the home and the host countries showed a negative impact on the choice of an acquisition in these foreign markets. The scholars also confirmed the influence of the parent firm size, prior acquisition experience, the industry type, whether or not the investor belongs to the G20 alliance, and whether it is state-owned on the choice of a market entry mode. It has also been mentioned that although the subject of a choice between a greenfield investment and an acquisition has been much researched, the focus on the emerging markets has still a lot of room for the future analysis (Rienda et al., 2018).

As it has been mentioned previously, some studies review the implication of different market entry modes and their influence on the performance of the firm in the future, on its competitiveness. For instance, Jaworek et al. (2018) have been studying the impact of an entry mode choice on the level of competitiveness of Poland-based firms. The authors came to the conclusion that greenfield ventures had in 45.7% of cases slight positive influence, in 42.9% no influence, and in 11.4% considerable positive influence on the competitiveness of the parent firm, as well as in 45.7% of cases slight positive influence, in 37.1% no influence, in 14.3% significant positive influence, and in 2.9% a slight negative influence on the competitiveness of the foreign subsidiary. As for the acquisitions, the authors found that in 84.6% of cases there was no influence and in 15.4% considerable positive influence on the competitiveness of the parent firm, whereas there was found that in 69.2% of cases no influence was detected, in 23.1 the influence was positive and significant, and in 7.7% there was a slight positive impact on the competitiveness of the foreign subsidiary (Jaworek et al., 2018).

Another idea for future research is, therefore, to identify the major determinants of the influence on the choice between a greenfield investment and an acquisition and to test those results on the empirical firm-specific data. Also, different types of foreign markets and domestic markets have to be taken into account.

5. Conclusions

As it has been mentioned in the purpose of the paper, it aimed to analyze the existing literature on the choice between a greenfield investment and an acquisition when a parent firm decides to expand its activities into a foreign market. Some of the factors have been confirmed by numerous studies to have a direct impact on the decision making, based on the data obtained from various multinational companies from different home countries which have foreign subsidiaries in various markets all over the world. One of such factors is the size of the planned investment relative to the size of the parent firm. Among other factors are also the intensity of research and development in the parent firm and whether it follows a global or a multidomestic strategy. Some other factors, such as cultural distance has not been confirmed to have a direct influence on the market entry choice, at least not in all countries and/or not for all of the dimension. Other factors, which although seem logical due to their theoretical foundation, have not been supported, as, for instance, the learning effect for many multinational firms which have had prior experience in a specific foreign market does only affect the future entries under other more significant circumstances.

The recent studies have been focusing much on the separate aspects of these two entity market entry modes, which can and should be applied in more general studies. Since many multinational corporations based in countries with emerging economies have obtained considerable power in the developed world in the past years, the research of such multinationals has recently become a trend. It has been mentioned, that the market entry mode choice determinants should be applied and analyzed for firms which are based in the emerging markets and entering foreign emerging markets, those entering developed industrial markets, as well as firms based in the developed markets which enter other developed or emerging markets.

Also, many of the most recent studies have developed mathematical models to detect the factors that have an impact on the choice of an entry mode, however, these have often not been verified based on some firm-specific or industry-specific data, therefore, the future research should take these into account and apply in their analysis.

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Abstract

Scientific literature has been focused on the determinants of the choice between a greenfield investment and an acquisition in the foreign markets for many years now. However, there are still some gaps and unanswered questions in the research. Therefore, the purpose of this paper was an analysis of the existing studies on this subject and the detection of the issues that have not or have poorly been researched.

The paper explains and discusses the theoretical foundations which are used by the scholars to create their hypotheses and to conduct their analysis. It also provides an overview of the most important studies in this field from the beginning of the 1990s till today. Further, it explains the most representative hypotheses along with the methods and data used to test them and the results of the analysis. And, finally, an attempt to identify the gaps and outstanding questions in the existing literature was made in the paper.

Abstract (Deutsch)

Seit geraumer Zeit wird in der Forschungsliteratur diskutiert, welche Faktoren die Entscheidung zwischen Greenfield-Investition und einer Firmenübernahme auf dem Auslandsmarkt bestimmen. Jedoch gibt es immer noch einige Forschungslücken und Fragestellungen, auf die bis jetzt noch keine schlüssigen Antworten gefunden wurden. Das Ziel dieser Arbeit war daher eine Analyse der bereits vorhandenen Studien zu diesem Thema sowie eine Erhebung der noch nicht oder nur unzureichend erforschten Problemstellungen.

Die Arbeit setzt sich mit den theoretischen Grundlagen auseinander, die viele Wissenschaftler verwenden, um Hypothesen aufzustellen und ihre Ergebnisse zu untermauern. Darüber hinaus stellt sie eine Übersicht der wichtigsten Studien dieses Fachgebietes vom Anfang 1990er Jahren bis heute zur Verfügung.

Außerdem werden die relevantesten Hypothesen, die dafür verwendeten Methoden und Daten sowie die Ergebnisse der Analyse beschrieben. Abschließend wurde der Versuch unternommen, Forschungslücken und offene Fragen zu „Greenfield versus Firmenübernahme“ in der derzeit vorhandenen Forschungsliteratur herauszustellen.