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What is the impact of cultural differences on market entry modes? : A systematic literature review

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Abstract (English)

This thesis examines how cultural differences influence firms' choice of foreign market entry modes. Entry mode choice is a central strategic decision in international business because it determines the level of ownership, control, risk, resource commitment, and flexibility that firms accept when entering foreign markets. Previous research on cultural differences and entry mode choice has produced inconsistent findings. Some studies suggest that cultural distance increases the likelihood of cooperative modes such as joint ventures, while others show that firms may prefer higher-control modes such as wholly owned subsidiaries, greenfield investments, or acquisitions. To address this fragmentation, the thesis applies a systematic literature review. The review follows the logic of PRISMA and is based on studies published between 1995 and 2025. The literature search was conducted in Scopus and Web of Science. After duplicate removal, title and abstract screening, and full-text assessment, 58 empirical studies were included in the final review. The findings show that cultural differences influence entry mode choice in a context-dependent way. The strongest evidence appears in studies on ownership mode choice, especially joint ventures versus wholly owned subsidiaries. Cultural distance may encourage joint ventures when firms need local knowledge, legitimacy, and support in unfamiliar markets. However, it may also encourage wholly owned subsidiaries or greenfield investments when firms prioritize control, knowledge protection, and the avoidance of partner-related coordination problems. The review further shows that the effect of cultural differences depends on moderators such as international experience, country risk, political risk, firm size, industry characteristics, administrative distance, subsidiary autonomy, and strategic asset-seeking motives. Overall, the thesis contributes to international business research by synthesizing a fragmented body of literature and showing that cultural differences do not lead to one universal entry mode choice. Instead, their effect depends on the balance between legitimacy, uncertainty, control, learning, and transaction cost considerations.

Abstract (Deutsch)

Diese Masterarbeit untersucht, wie kulturelle Unterschiede die Wahl von Markteintrittsformen international tätiger Unternehmen beeinflussen. Die Wahl der Markteintrittsform ist eine zentrale strategische Entscheidung im internationalen Management, da sie bestimmt, welches Maß an Eigentum, Kontrolle, Risiko, Ressourceneinsatz und Flexibilität ein Unternehmen beim Eintritt in einen ausländischen Markt übernimmt. Die bisherige Forschung zu kulturellen Unterschieden und Markteintrittsformen liefert jedoch uneinheitliche Ergebnisse. Einige Studien zeigen, dass kulturelle Distanz die Wahrscheinlichkeit kooperativer Markteintrittsformen, insbesondere Joint Ventures, erhöht. Andere Studien zeigen hingegen, dass Unternehmen in kulturell entfernten Märkten eher kontrollintensive Formen wie hundertprozentige Tochtergesellschaften, Greenfield-Investitionen oder Akquisitionen wählen. Zur Klärung dieser widersprüchlichen Befunde wird in dieser Arbeit eine systematische Literaturübersicht durchgeführt. Die Analyse orientiert sich an der PRISMA-Logik und umfasst empirische Studien aus dem Zeitraum 1995 bis 2025. Die Literatursuche wurde in Scopus und Web of Science durchgeführt. Nach der Entfernung von Duplikaten, dem Titel- und Abstract-Screening sowie der Volltextprüfung wurden 58 empirische Studien in die finale Analyse aufgenommen. Die Ergebnisse zeigen, dass kulturelle Unterschiede die Wahl der Markteintrittsform beeinflussen, jedoch nicht in einer einheitlichen Richtung. Besonders deutlich wird dieser Einfluss bei der Wahl zwischen Joint Ventures und hundertprozentigen Tochtergesellschaften. Kulturelle Distanz kann Joint Ventures begünstigen, wenn Unternehmen lokales Wissen, Legitimität und Unterstützung benötigen. Gleichzeitig kann sie aber auch kontrollintensive Markteintrittsformen begünstigen, wenn Unternehmen Koordinationsprobleme mit lokalen Partnern vermeiden, firmenspezifisches Wissen schützen oder mehr Kontrolle behalten möchten. Der Einfluss kultureller Unterschiede hängt zudem von Faktoren wie internationaler Erfahrung, Länderrisiko, politischem Risiko, Unternehmensgröße, Branche, administrativer Distanz, Autonomie der Tochtergesellschaft und strategischen Investitionsmotiven ab. Insgesamt zeigt die Arbeit, dass kulturelle Unterschiede nicht zu einer universellen Markteintrittsform führen. Vielmehr hängt ihr Einfluss davon ab, wie Unternehmen Legitimität, Unsicherheit, Kontrolle, Lernen und Transaktionskosten gegeneinander abwägen.

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List of Abbreviations

FDI	Foreign Direct Investment
fsQCA	Fuzzy-set Qualitative Comparative Analysis
GLOBE	Global Leadership and Organizational Behavior Effectiveness
IB	International Business
IBM	International Business Machines
JV	Joint Venture
MNC	Multinational Corporation
MNE	Multinational Enterprise
OLI	Ownership, Location, and Internalization
OLS	Ordinary Least Squares
PDI	Power Distance Index
PLS-SEM	Partial Least Squares Structural Equation Modeling
PRISMA	Preferred Reporting Items for Systematic Reviews and Meta-Analyses
SME	Small and Medium-sized Enterprise
UAE	United Arab Emirates
US	United States
WOS	Wholly Owned Subsidiary

1. Introduction

1.1 Background

Defining culture has been a complex issue in social research, since the concept can be understood from different theoretical perspectives (Triandis, 1994). In general, culture refers to the shared characteristics that distinguish one human group from another. It reflects a society's specific pattern of norms, values, and institutions, which helps explain how social and economic exchanges are organized and understood within that society (Hofstede, 1980; Trompenaars and Hampden-Turner, 1998). At the national level, culture can be viewed as an aggregation of individual values. Although individuals are shaped both by their personal experiences and by the values shared within their society, their value priorities may still differ. Therefore, national culture captures the dominant value orientations that are typical for members of a society and that reflect their common process of socialization and cultural learning (Schwartz, 1999).

Differences between national cultural systems, commonly referred to as cultural distance, represent an important concept in research on multinational enterprises' strategies and organizational characteristics (Barkema et al., 1996; Brouthers and Brouthers, 2001). In studies of international business, cultural distance is particularly relevant when analyzing transaction costs, risks connected with cross-border operations, and managerial decision-making within MNEs. In more recent research, cultural distance is most often understood as the extent to which national cultural values differ between the multinational enterprise's home country and the foreign markets in which it operates.

When analyzing the role of cultural distance, much of the literature suggests that greater cultural differences between an MNE's home country and the host market can reduce the firm's ability to operate effectively in that foreign environment (Gomez-Mejia and Palich, 1997; Hennart and Larimo, 1998). These operational difficulties often arise because firms may have limited understanding of the host country's norms, values, and institutions, which are important for effective social and business exchange across markets. In addition, cultural distance can increase complexity and uncertainty in managerial decision-making, particularly in relation to MNE strategies and organizational choices (Shane et al., 1995).

Foreign market entry mode choice is a central strategic decision because it determines the level of control, risk, resource commitment, and flexibility associated with international expansion. Available modes range from non-equity arrangements, such as exporting and licensing, to equity-based modes, such as joint ventures and wholly owned subsidiaries. Cultural differences are relevant because they can influence firms' need for local knowledge, coordination, and control (Anand & Delios, 1997; Hennart & Reddy, 1997; Brouthers & Brouthers, 2003).

1.2 Research Objective and Research Question

This thesis addresses the fragmented and inconsistent understanding of how cultural differences influence firms' foreign market entry mode choices. Entry mode choice is a central strategic decision in international business because it determines the level of ownership, control, risk, resource commitment, and flexibility that firms accept when entering foreign markets. Previous studies have produced mixed findings: some suggest that cultural distance increases the likelihood of cooperative modes such as joint ventures, while others show that firms may prefer higher-control modes such as wholly owned subsidiaries, greenfield investments, or acquisitions.

These inconsistencies are partly related to the different ways in which cultural differences and entry modes are conceptualized. Cultural differences are measured through frameworks such as Hofstede-based cultural distance, the Kogut and Singh index, GLOBE, psychic distance, and informal institutional distance. At the same time, entry mode choice is studied through different comparisons, including joint ventures versus wholly owned subsidiaries, greenfield versus acquisition, ownership level, and equity versus non-equity modes.

Therefore, the objective of this thesis is to systematically review and synthesize the empirical literature on cultural differences and foreign market entry mode choice. A systematic literature review is appropriate because it allows fragmented research to be collected, organized, and synthesized in a transparent way (Snyder, 2019).

The primary research question is:

How do cultural differences influence firms' choice of foreign market entry modes?

By answering this question, the thesis aims to identify the main patterns, contradictions, and moderating factors in the existing literature and to provide a clearer understanding of how cultural differences shape foreign market entry decisions.

1.3 Structure of the Thesis

This thesis is structured into seven main chapters.

Chapter 1 introduces the topic and provides the background of the study. It explains why foreign market entry mode choice is an important strategic decision in international business and why cultural differences are relevant for understanding these decisions. The chapter also presents the research objective and the main research question guiding the thesis.

Chapter 2 provides the theoretical background. First, it introduces the main types of foreign market entry modes, including exporting, licensing, franchising, strategic alliances, joint ventures, wholly owned subsidiaries, greenfield investments, and acquisitions. Second, it discusses the role of cultural differences in international business by explaining cultural distance, Hofstede's cultural dimensions, the GLOBE framework, psychic distance, and the distinction between formal and informal institutional distance. Third, the chapter presents the main theoretical perspectives used in entry mode research, including Transaction Cost Theory,

Institutional Theory, Internalization Theory, the Eclectic Paradigm, the Resource-Based View, and Organizational Learning Theory.

Chapter 3 explains the methodology of the thesis. Since this study is based on a systematic literature review, the chapter describes the research design, the PRISMA framework, the search strategy, the applied inclusion and exclusion criteria, the study selection process, and the data extraction and coding framework. It also explains how the final sample of empirical studies was identified and analysed.

Chapter 4 presents the results of the systematic literature review. It first provides an overview of the selected studies, including publication period, geographic focus, industry coverage, methods, theories, and cultural frameworks. The following sections synthesize the findings according to the main analytical categories identified in the coding process: cultural frameworks used in entry mode research, ownership mode choice, establishment mode choice, equity versus non-equity entry modes, and moderating factors affecting the relationship between cultural differences and entry mode choice.

Chapter 5 discusses the main findings of the review. It answers the research question by explaining how cultural differences influence firms' choice of foreign market entry modes. The chapter also compares the findings with previous review and meta-analysis literature, discusses the theoretical implications for international business research, and outlines managerial implications for firms entering culturally distant markets.

Chapter 6 presents the limitations of the thesis and suggests directions for future research. It discusses methodological limitations related to database selection, language restrictions, document type, subject area, search terms, and the qualitative synthesis approach. It also identifies future research opportunities, especially regarding alternative cultural frameworks, specific entry mode categories, moderating factors, emerging-market firms, and the interaction between formal and informal institutional distance.

Chapter 7 concludes the thesis by summarizing the main findings and directly answering the research question. It highlights the contribution of the thesis and emphasizes that cultural differences influence entry mode choice through multiple context-dependent mechanisms rather than through one universal effect.

The thesis concludes with the reference list and an appendix that provides the complete list of studies included in the final systematic literature review.

2. Theoretical Background

2.1 Market Entry Modes

Entry mode choice concerns the way multinational enterprises initially decide to enter foreign markets. In the literature, these decisions are commonly distinguished according to the level of equity commitment involved. Joint ventures and wholly owned subsidiaries, including acquisitions and greenfield investments, are usually considered equity-based entry modes, whereas exporting and licensing are classified as non-equity modes. Prior research suggests that such choices are mainly shaped by the extent of control associated with each mode and by firms' efforts to manage and reduce risk (Anand and Delios, 1997; Hennart and Reddy, 1997; Brouthers and Brouthers, 2003).

One perspective in the literature argues that greater cultural distance between the home country and the host market is associated with a higher level of equity ownership in foreign entry mode decisions. From this viewpoint, substantial cultural differences encourage multinational enterprises to choose entry modes that provide stronger control, as this may help reduce transaction costs (Hennart and Reddy, 1997). A higher degree of control can be particularly important in culturally distant markets, where firms often face increased information costs and greater challenges in transferring firm-specific knowledge and capabilities (Li and Guisinger, 1992). By increasing their equity ownership, MNEs can exercise more control over their foreign operations, which may help them manage differences in cultural values and institutional environments. As a result, stronger control may facilitate cross-market social exchange and contribute to improved overall operational effectiveness within the multinational enterprise.

2.1.1 Exporting

Exporting can be understood as an entry strategy in which a firm produces goods or services in one country, often in its domestic market, and then sells and distributes them to customers in foreign markets. Since exporting usually requires lower levels of risk, investment, and foreign market knowledge than other entry modes, it is often the preferred initial approach for firms expanding internationally. Traditionally, firms keep production activities in the home country, while marketing, distribution, and customer service are carried out in the target foreign market. However, many multinational enterprises from advanced economies now place production in other countries, frequently in emerging markets such as China, Mexico, or Poland, and then export the finished products to selected international markets. In the export market, the firm may manage marketing, distribution, and customer service itself, or it may rely on an independent distributor to perform these functions on its behalf (Cavusgil et al., 2020).

Advantages

Exporting offers two main advantages for firms entering foreign markets. First, it allows companies to avoid the high costs connected with establishing production facilities or more extensive operations in the host country. In this sense, exporting represents a relatively low-commitment and low-involvement form of international expansion. Second, exporting can enable firms to benefit from experience curve effects and location economies. When production

is concentrated in one location and products are then exported to multiple markets, firms may achieve significant economies of scale based on their total international sales volume. This approach is also commonly used by many small and medium-sized enterprises as a way to gradually enter and expand into different foreign markets (Hill, 2021).

Disadvantages

According to Hill (2021), exporting also has several important limitations. First, exporting from the firm's home country may not be the most efficient option when production can be located in another country with lower costs or more favorable conditions. For firms pursuing global or transnational strategies, it may be more beneficial to manufacture in locations where factor conditions contribute most strongly to value creation and then export from those locations to other markets. Therefore, the issue is not necessarily exporting itself, but rather exporting from the home country when more cost-efficient production locations are available. For example, many U.S. electronics firms have shifted parts of their manufacturing activities to East Asia in order to benefit from relatively low-cost and skilled labor, while still exporting products to global markets, including the United States.

Second, exporting can become uneconomical when supply chain costs are too high, especially for bulky or heavy products. One possible solution is to organize production on a regional basis, close to the markets where the products will be sold. This allows firms to achieve some economies of scale while also keeping transportation and logistics costs under control. Many multinational chemical companies, for instance, use regional production facilities to supply several nearby countries from one location (Hill, 2021).

Third, tariff barriers can reduce the attractiveness of exporting by increasing costs and uncertainty. In addition, the possibility that host-country governments may introduce new tariffs or trade restrictions can make exporting a riskier strategy. This is especially relevant in a global environment where some countries have adopted more nationalistic trade policies, increased trade barriers, or renegotiated international partnerships. As a result, uncertainty surrounding international trade rules and political decisions can create additional challenges for firms that rely on exporting (Hill, 2021).

Fourth, exporting may create difficulties when a firm depends on external intermediaries for marketing, sales, and customer service in foreign markets. This is often the case for manufacturing firms at the early stages of international expansion. Local agents or distributors may also represent competing firms, which can lead to conflicts of interest and weaker commitment to the exporting firm's products. Similar problems may arise when distribution is handled by another multinational enterprise. To reduce these risks, firms may establish wholly owned subsidiaries in foreign markets to manage local marketing, sales, and service directly. This enables the firm to maintain stronger control over foreign market activities while still benefiting from producing in one or a few selected locations (Hill, 2021).

2.1.2 Licensing

Licensing represents a contractual form of international business in which the owner of legally protected property, such as a brand name, trademark, logo, design, technology, artistic work, or business system, grants another party the right to use it. This form of market entry has become

increasingly important in international business. Agreements such as those between LEGO and Star Wars illustrate how licensing creates a formal relationship between the owner of the property and the firm that receives permission to use it. For companies that possess valuable licensable assets, licensing can become a highly profitable way to expand internationally (Cavusgil et al., 2020).

Advantages

In a standard international licensing arrangement, the licensee usually provides most of the capital required to establish and operate the business in the foreign market. As a result, one of the main advantages of licensing is that the licensor can enter or benefit from a foreign market without directly carrying the costs and risks of developing operations there. This makes licensing particularly suitable for firms that do not have sufficient financial resources to build their own overseas operations. It can also be an attractive option when a company does not want to commit significant capital to a market that is unfamiliar or politically unstable. Furthermore, licensing may be used when firms want to access a foreign market but face restrictions or barriers to direct investment. Finally, this entry mode is often chosen when a firm owns valuable intangible assets with potential commercial applications but does not wish to develop or exploit those applications by itself (Hill, 2021).

Disadvantages

According to Hill (2021), licensing also has several important disadvantages. First, it gives the firm only limited control over manufacturing, marketing, and strategic decisions in foreign markets. This can be problematic when the firm needs strong coordination in order to achieve experience curve effects and location economies. Since licensing usually allows each licensee to establish its own production activities, the licensor has less ability to concentrate production in one central location and benefit from larger-scale efficiencies. Therefore, when these economies are important for international competitiveness, licensing may not be the most suitable entry mode.

Second, licensing can restrict a firm's ability to coordinate global strategy across different countries. Firms competing internationally may need to use profits generated in one market to support competitive actions in another market. However, this is difficult under licensing arrangements, because licensees are generally independent firms and are unlikely to allow their profits, except for agreed royalty payments, to be used to support activities in another country (Hill, 2021).

Third, licensing creates the risk that a firm may lose control over its technological know-how. For many multinational enterprises, technological knowledge represents an important source of competitive advantage. Although firms often try to protect their know-how through licensing agreements, they may still face difficulties in controlling how their technology is used by foreign licensees. As a result, licensing can expose the firm to the danger that its valuable knowledge may be misused, imitated, or transferred beyond its original intention (Hill, 2021).

2.1.3 Franchising

Franchising is a contractual form of foreign market entry in which one firm, the franchisor, grants another firm, the franchisee, the right to use its intangible assets and provides ongoing support over a longer period of time. In return, franchisors usually receive fixed fees, royalty payments, or a combination of both. The most successful franchise systems are often built around strong and internationally recognizable brands, such as Mercedes, McDonald's, and Starbucks. For franchisees, the brand name or trademark is usually the most valuable element of the agreement, since it provides recognition and market credibility. For this reason, smaller firms with less established brands may find it more difficult to attract potential franchisees (Wild & Wild, 2014).

Advantages

The benefits of franchising as a foreign market entry mode are largely comparable to those of licensing. This approach allows the firm to avoid many of the costs and risks involved in establishing operations in a foreign market independently, since these responsibilities are usually taken on by the franchisee. At the same time, this gives the franchisee a strong motivation to develop a successful and profitable business as quickly as possible. As a result, franchising enables service firms to expand internationally at a relatively fast pace, while keeping both financial commitment and risk comparatively low, as illustrated by the global expansion of McDonald's (Hill, 2021).

Disadvantages

Hill (2021) explains that the disadvantages of franchising are generally less severe than those associated with licensing. Since franchising is most commonly used by service firms, problems related to the coordination of manufacturing activities, experience curve effects, and location economies are usually less relevant. However, franchising can still limit a firm's ability to coordinate global competitive strategies, particularly when profits from one country could otherwise be used to support competitive actions in another market.

A more important limitation of franchising concerns quality control. Franchise systems are strongly dependent on the firm's brand name, which signals a certain level of quality to customers. However, maintaining consistent quality standards across different international markets can be difficult, especially when foreign franchisees do not give sufficient attention to these standards. Poor quality in one country may not only reduce sales in that particular market, but also damage the firm's overall international reputation and negatively affect sales in other countries (Hill, 2021).

One way to reduce this problem is to establish a subsidiary in each foreign market where the firm operates. This subsidiary may be wholly owned by the parent company or organized as a joint venture with a local partner. Its role is to manage the rights and responsibilities connected with developing and supervising franchises within a specific country or region (Hill, 2021).

2.1.4 Strategic Alliances

Strategic alliances represent a form of cooperation between two or more firms that seek to achieve their strategic objectives without creating a separate jointly owned organization. Unlike joint ventures, strategic alliances do not require the establishment of a new legal entity, but they still allow firms to collaborate in pursuit of shared or complementary goals. Similar to joint ventures, these alliances may be formed for a limited period or maintained over a longer time, depending on the interests and objectives of the partners involved. Strategic alliances can take place between firms and their suppliers, customers, or even competitors. In some cases, alliance partners may also acquire a minority share in each other's equity, which gives each firm a direct interest in the other's future performance and reduces the likelihood of opportunistic behavior between partners (Cavusgil et al., 2020).

Advantages

Strategic alliances can provide several important advantages for firms expanding internationally. First, they may make it easier to enter foreign markets, especially when local knowledge and business connections are important. For example, firms entering China often benefit from cooperation with a local partner who understands the market environment and has established networks. Second, alliances allow firms to share the fixed costs and risks involved in developing new products, technologies, or processes. Third, they enable partners to combine complementary resources, capabilities, and expertise that would be difficult for each firm to develop independently. Finally, strategic alliances can also help firms influence or establish technological standards within an industry in ways that may support their long-term competitive position (Hill, 2021).

Disadvantages

Wild and Wild (2014) point out that one of the main disadvantages of strategic alliances is the possibility that a partner may later become a local or even global competitor. For example, a firm may use the alliance to learn about the market and prepare for the later establishment of its own wholly owned subsidiary. To reduce this risk, companies may avoid cooperation in areas closely related to their core competencies. They may also include contractual clauses that prevent partners from competing with them in specific product categories or geographic markets.

Wild and Wild (2014) also note that, similar to joint ventures, strategic alliances may be affected by conflicts between partners. Although alliance agreements are usually designed to cover as many potential problems as possible, difficulties may still arise because of differences in communication, management practices, or culture. If such problems become too serious, ending the alliance may become the only feasible option.

2.1.5 Joint Ventures

Joint ventures are often established when a single firm does not possess all the resources and capabilities required to take advantage of a particular business opportunity. In international joint ventures, the foreign partner commonly provides resources such as capital, technology, managerial knowledge, training, or specific products. The local partner, on the other hand, may contribute access to production facilities, knowledge of the local language and culture, understanding of the domestic market, relationships with host-country authorities, or access to lower-cost inputs such as labor and raw materials (Cavusgil et al., 2020).

Advantages

Hill (2021) identifies several important advantages of joint ventures as a foreign market entry mode. First, they allow a firm to benefit from the local partner's knowledge of the host-country environment, including competitive conditions, culture, language, political institutions, and business practices. In many international joint ventures, the foreign firm contributes technological knowledge, products, or managerial capabilities, while the local partner provides market expertise and the local knowledge needed to compete effectively in the host country.

Second, joint ventures can be useful when the costs and risks of entering a foreign market are high. By cooperating with a local partner, the foreign firm can share both the financial burden and the uncertainty connected with establishing operations in the host market (Hill, 2021).

Third, in some countries, political conditions may make joint ventures the most practical or even the only feasible entry mode. Research cited by Hill suggests that joint ventures with local partners may face a lower risk of nationalization or other forms of unfavorable government intervention, because local equity partners often have an interest in opposing such actions and may also have some influence on host-country policy (Bradley, 1977). Since governments are generally reluctant to harm domestic firms, the presence of a local partner can also provide some protection for the foreign firm.

Disadvantages

Hill (2021) highlights several important disadvantages of joint ventures as a foreign market entry mode. First, similar to licensing, joint ventures may expose the firm to the risk of transferring valuable technological knowledge to its partner. However, this risk can be reduced through the design of the joint venture agreement. For example, the foreign firm may seek majority ownership in the venture, which gives it greater control over the use of its technology. Nevertheless, it may be difficult to find a local partner willing to accept a minority position. Another possibility is to protect technologies that are central to the firm's core competencies while sharing only less critical forms of knowledge with the partner.

Second, joint ventures may not provide the firm with the level of control required to fully achieve experience curve effects or location economies. Since control is shared with another partner, the firm may also face difficulties in coordinating the foreign subsidiary as part of a broader global strategy, especially when it needs to respond to competitors across several markets (Hill, 2021).

Third, shared ownership can create conflicts between partners, particularly when their goals, priorities, or strategic views begin to diverge. Such conflicts often arise when the bargaining power of the partners changes over time. For instance, in a joint venture between a foreign firm and a local partner, the foreign firm may become less dependent on the local partner as it gains more knowledge about the host market. This can strengthen the foreign firm's bargaining position and lead to disagreements over the control, objectives, and strategic direction of the venture. To reduce these problems, some firms prefer joint ventures in which one partner holds a controlling interest (Hill, 2021).

2.1.6 Wholly Owned Subsidiaries

In discussing wholly owned subsidiaries, Wild and Wild (2014) explain that this entry mode refers to a foreign operation that is fully owned and controlled by one parent company. A firm can establish such a subsidiary in two main ways: by creating a new operation from the ground up, which involves building new facilities such as factories, offices, and equipment, or by acquiring an existing company and integrating its resources and operations.

The choice between establishing a new subsidiary and purchasing an existing firm largely depends on the activities the subsidiary is expected to perform. When the parent company intends to produce advanced or high-technology products, it often has to build new facilities that meet its specific production requirements. However, this approach can be time-consuming because the firm must construct facilities, recruit and train employees, and organize production before operations can begin (Wild and Wild, 2014).

By contrast, acquisition may be more suitable when the subsidiary's main role is related to marketing, sales, or distribution, since these activities usually require fewer specialized technologies. By purchasing an existing firm in the target market, the parent company can gain access to established operations and begin functioning more quickly. This approach can be especially attractive when the acquired company possesses valuable assets such as a recognized brand name, trademark, or process technology (Wild and Wild, 2014).

Advantages

Wholly owned subsidiaries offer several important advantages for firms entering foreign markets. First, this entry mode is often preferred when a firm's competitive advantage depends strongly on technological capabilities, because full ownership reduces the risk of losing control over valuable knowledge and competencies. For this reason, many high-technology firms, including companies in industries such as electronics and pharmaceuticals, often choose wholly owned subsidiaries when expanding internationally (Hill, 2021).

Second, a wholly owned subsidiary provides the parent company with strong control over its foreign operations. This level of control is particularly important when the firm needs to coordinate its strategy across different countries, for example by using profits from one market to support competitive actions in another (Hill, 2021).

Third, full ownership may be necessary when a firm aims to achieve location economies and experience curve effects, especially under strong cost pressures. In such cases, the company may organize its global value chain so that each subsidiary specializes in specific activities,

products, or components. These subsidiaries may then exchange parts, products, or services within the firm's wider international network. However, this type of global production system requires a high degree of coordination and control, since each unit must follow centrally determined decisions regarding production, output levels, and transfer pricing. Licensees or joint venture partners may be unwilling to accept such a dependent role, which makes wholly owned subsidiaries more suitable in these situations (Hill, 2021).

Finally, a wholly owned subsidiary allows the parent company to retain the full share of profits generated in the foreign market (Hill, 2021).

Disadvantages

A major disadvantage of establishing a wholly owned subsidiary is that it usually requires the highest level of capital investment compared with other foreign market entry modes. Since the parent company fully owns and controls the subsidiary, it must also bear all costs and risks connected with setting up and operating in the foreign market. These risks may be somewhat lower when the firm acquires an already established company in the host country, because the acquired firm may already possess local market knowledge and operational experience. However, acquisitions can also create additional challenges, particularly when the parent company has to integrate different corporate cultures. In some cases, the difficulties of combining two organizational cultures may reduce or even outweigh the advantages of acquiring an existing foreign operation (Hill, 2021).

2.1.7 Greenfield

Cavusgil et al. (2020) describe greenfield investment as an entry mode in which a firm establishes a completely new manufacturing, marketing, or administrative facility in a foreign market rather than acquiring existing operations. As the term suggests, this usually involves purchasing undeveloped land and constructing new facilities, such as a production plant, sales subsidiary, or another business unit, specifically for the firm's own activities. An example of this approach is Ford's investment in Rayong, Thailand, where the company built a large factory to produce small cars for emerging markets.

Advantages

One of the main advantages of establishing a greenfield venture in a foreign market is that it allows the firm to create a subsidiary that closely matches its own strategic, organizational, and operational requirements. Building a new subsidiary from the beginning makes it easier to develop the desired organizational culture, rather than trying to change the culture of an already existing acquired company. In the same way, firms can introduce their own operating routines and managerial practices more easily in a newly established unit than in an acquired firm with pre-existing routines. This is particularly important for international companies that create value by transferring products, capabilities, skills, and know-how from their existing operations to the new foreign subsidiary (Hill, 2021).

Disadvantages

Although greenfield ventures offer important advantages, they also involve several limitations. One major disadvantage is that they usually require more time to establish than acquisitions, since the firm has to build the new operation from the beginning. They also involve uncertainty, particularly regarding future revenues and profitability, as is the case with any newly created business. However, these risks may be lower for firms that already have experience in foreign markets and understand the requirements of operating internationally (Hill, 2021).

Greenfield ventures may also be less risky than acquisitions in some respects, because the firm is less likely to face unexpected problems connected with integrating an existing company. Nevertheless, another important disadvantage is that slower market entry may allow more aggressive competitors to enter the market first through acquisitions. These competitors may quickly build a strong market position, which can reduce the future growth potential of the greenfield venture (Hill, 2021).

2.1.8 Acquisition

Acquisition refers to an entry mode in which a firm expands internationally by purchasing an already existing company or facility in the target market. For example, Brazil's Natura Cosméticos acquired the British cosmetics and skin care retailer The Body Shop as a way to strengthen its presence in advanced economy markets. Similarly, the Chinese computer manufacturer Lenovo expanded globally through its acquisition of IBM's personal computer business. This transaction gave Lenovo access to important strategic assets, including established brands and distribution networks, and enabled the company to broaden its market presence quickly and develop into a global competitor (Cavusgil et al., 2020).

Advantages

Acquisitions offer several important advantages as a foreign market entry mode. First, they allow firms to enter a target market relatively quickly. By purchasing an already established company, a firm can immediately gain a presence in the foreign market instead of building operations gradually from the beginning (Hill, 2021).

Second, acquisitions can help firms move ahead of competitors. This is especially important in industries that are globalizing rapidly, such as telecommunications, where deregulation and the liberalization of foreign direct investment rules have made cross-border acquisitions easier. In such markets, firms may engage in waves of acquisitions as they compete to achieve global scale and secure strong market positions before their rivals (Hill, 2021).

Third, managers may view acquisitions as less risky than greenfield investments. When a firm acquires an existing company, it obtains assets that already generate revenue and profits. By contrast, the future performance of a greenfield venture is more uncertain because the operation has not yet been established. Acquisitions also provide access to tangible assets, such as factories, logistics systems, and customer service structures, as well as intangible assets, including local brand names and managerial knowledge of the host-country business environment. This local knowledge can reduce the likelihood of errors caused by unfamiliarity with the national culture (Hill, 2021).

Disadvantages

According to Hill (2021), acquisitions may fail for several important reasons. First, acquiring firms often pay too much for the target company. This can happen when several firms are interested in the same acquisition, which increases the purchase price. In addition, managers of the acquiring firm may be overly optimistic about the value that the acquisition can create and may therefore be willing to pay a high premium above the target firm's market value. This problem is often explained through the hubris hypothesis, which suggests that top managers may overestimate their own ability to generate value from an acquisition because their previous success has given them excessive confidence in their managerial capabilities.

Second, acquisitions can fail because of cultural conflicts between the acquiring and acquired firms. After an acquisition, the acquired company may experience high levels of managerial turnover, especially if employees and managers are uncomfortable with the practices, routines, or management style of the acquiring firm (Hill, 2021).

Third, acquisitions often face difficulties during the integration process. Although firms may expect to create value by combining the operations of the acquiring and acquired companies, this process can be slower and more complicated than expected. Differences in management philosophy, organizational culture, and national culture may create obstacles to successful integration. In addition, internal conflicts and bureaucratic disagreements between managers can further delay the process (Hill, 2021).

Finally, acquisitions may fail because of insufficient pre-acquisition screening. Some firms decide to acquire a company without carefully evaluating the potential benefits, costs, and risks of the transaction. This may happen when firms act too quickly because they fear that a competitor may acquire the target first. However, after the acquisition, the acquiring firm may discover that the target company has serious organizational or operational problems. This risk can be especially high in cross-border acquisitions, where the acquiring firm may not fully understand the target firm's national culture, institutional environment, or business system (Hill, 2021).

2.2 Cultural Differences in International Business

2.2.1 Cultural Distance

Cultural distance has been widely examined in the literature on foreign market entry mode decisions (Barkema et al., 1996; Demirbag et al., 2007). Building on Kogut and Singh (1988) and Hofstede (1989), cultural distance can be understood as the degree of difference between the home and host country in terms of cultural values, economic systems, and business practices. Such differences may create additional uncertainty for firms operating abroad (Rothaermel et al., 2006), while cultural similarities between the home and host country can reduce transaction costs (Taylor et al., 1998).

Cultural distance may also increase the costs related to collecting and monitoring information about local firms (Erramilli and Rao, 1993). In this context, Coval and Moskowitz (2001) argue that geographic and cultural proximity can lower information costs in acquisition decisions.

Conversely, greater cultural distance can increase information asymmetry, raise monitoring costs, and make it more difficult for firms to transfer their core competencies to foreign markets (Tihanyi et al., 2005). For this reason, when cultural distance is high, firms may prefer greenfield ventures as an entry mode, since this allows them to establish operations more directly according to their own routines and capabilities (Brouthers and Brouthers, 2000; Tihanyi et al., 2005; Zhao et al., 2004).

Moreover, higher cultural distance is associated with greater costs of transferring knowledge and technology across borders (Almeida and Kogut, 1999; Kogut and Singh, 1988; Morschett et al., 2010). In acquisition contexts, the acquired firm may resist the transfer of knowledge from the acquiring firm, especially when organizational and cultural differences are substantial. In general, the greater the cultural distance between the acquiring firm and the acquired unit, the more likely it is that their practices will be dissimilar, incompatible, and difficult to integrate or transfer (Cho and Padmanabhan, 1995; Hofstede, 1980, 1983; Schneider and De Meyer, 1991; Slangen, 2006). This argument is also supported by previous empirical studies (Harzing, 2002; Kogut and Singh, 1988; Larimo, 2003).

2.2.2 Hofstede's Cultural Dimensions

Hofstede's cultural framework was developed on the basis of a large international study conducted between 1967 and 1978 among IBM subsidiaries. In this research, Hofstede (1984) examined differences in national cultural patterns across four main areas: attitudes toward authority, the relationship between individuals and groups, the social meaning of gender roles, and approaches to uncertainty and risk. These areas formed the basis of Hofstede's original cultural dimensions: power distance, individualism versus collectivism, masculinity versus femininity, and uncertainty avoidance.

In international management research, Hofstede's framework has been widely used to examine cultural differences between countries. In particular, cultural distance has often been measured by applying the Kogut and Singh (1988) index, which builds on Hofstede's cultural dimensions. Hofstede (1984) defines culture as a form of collective mental programming shared by members of a particular group, which distinguishes one group from another. Later studies expanded the original framework by adding two further dimensions: long-term orientation and indulgence versus restraint (Hofstede & Bond, 1988; Hofstede & Minkov, 2010).

2.2.2.1 Power Distance

According to Hofstede (1984), organizations are inherently characterized by unequal power relations, particularly through the hierarchical relationship between managers and subordinates. Hofstede argues that such inequality is both unavoidable and functional within organizational structures. At the organizational level, he distinguishes between two types of hierarchical relationships. The first is based on more objective factors, such as the expertise, work experience, and professional background of the individuals involved. The second is shaped by more subjective elements, including the values, personality traits, and mental programming of both parties, as well as the psychological influence they have on each other.

Hofstede and Bond (1988) further suggest that social inequality is often maintained not only by those in powerful positions, but also by those in subordinate roles who accept such unequal relationships. In order to measure power distance quantitatively, Hofstede developed the Power Distance Index (PDI). This index was calculated using three items from the HERMES questionnaire: perceptions of managerial decision-making, the extent to which subordinates feel anxious about disagreeing with their superiors, and the type of decision-making style preferred by employees.

Power distance represents one of Hofstede's main dimensions for comparing national cultures. It refers to the extent to which unequal power distribution is accepted within institutions and organizations. Institutions include basic social structures such as the family, school, and wider community, while organizations refer mainly to workplaces. A high level of power distance indicates a strongly hierarchical society in which authority is concentrated at the top and decision-making tends to be centralized and autocratic (Hofstede, 1984).

2.2.2.2 Uncertainty Avoidance

Although individuals generally recognize that uncertainty exists, cultures differ in the way they respond to uncertain situations. Uncertainty avoidance refers to the extent to which people feel uncomfortable or threatened by ambiguity, unpredictability, and risk. Members of cultures with stronger uncertainty avoidance tend to reduce uncertainty by creating formal rules, legal systems, technologies, and organized structures. For example, technology can be used to manage uncertainty arising from nature, while laws and regulations help control individual behavior and maintain social order. In this sense, societies develop structured systems in order to preserve stability, coherence, and predictability. Cultures with high uncertainty avoidance therefore tend to rely more strongly on rules and procedures as mechanisms for reducing ambiguity (Hofstede & Bond, 1988).

2.2.2.3 Individualism vs Collectivism

The relationship between individuals and the group differs across national cultures. Individualism refers to societies in which people are more likely to see themselves as independent individuals and to prioritize personal goals. Collectivism, by contrast, describes cultures in which individuals tend to identify strongly with the group and place greater importance on collective interests. A high level of individualism indicates that personal objectives are valued more strongly than group obligations. In collectivist societies, individuals are more inclined to respect group norms and values, and their behavior is often guided by the desire to support the interests of the wider group rather than their own individual preferences (Hofstede, 1984).

2.2.2.4 Masculinity vs Femininity

Hofstede and Waquet (1994) differentiate between masculine and feminine cultural orientations in relation to gender roles. In masculine cultures, greater emphasis is placed on values traditionally associated with masculinity, such as competition, achievement, ambition, material success, and performance orientation. In these societies, gender roles tend to be clearly

separated: men are expected to be assertive, strong, decision-oriented, and focused on material achievement, while women are more often associated with modesty, care, tenderness, and quality of life.

By contrast, feminine cultures place stronger importance on interpersonal relationships, social skills, cooperation, and overall quality of life. In such societies, gender roles are less sharply distinguished, and both men and women are expected to value modesty, care, and concern for well-being. Therefore, masculinity is generally reflected in the importance attached to material success, achievement, and more authoritarian values, whereas femininity is associated with stronger emphasis on relationships, social harmony, and quality of life (Hofstede & Waquet, 1994).

2.2.2.5 Other Dimensions

Later extensions of Hofstede's cultural framework introduced two additional dimensions. The fifth dimension, originally developed from the concept of Confucian dynamism, was later referred to as long-term orientation. This dimension reflects the extent to which societies emphasize future-oriented values, such as perseverance, thrift, patience, and the willingness to invest in long-term goals. By contrast, short-term orientation is associated with stronger attachment to tradition, respect for past and present obligations, and a more static view of social life (Hofstede & Bond, 1988).

The sixth dimension, indulgence versus restraint, captures differences in the way societies regulate the satisfaction of basic human desires. Indulgent cultures allow relatively free gratification of needs related to enjoyment, leisure, and personal happiness. Restrained cultures, on the other hand, place stronger limits on such gratification and regulate individual behavior through stricter social norms and expectations (Hofstede & Minkov, 2010).

2.2.3 GLOBE

House et al. (2004) developed the GLOBE project as a large-scale framework for examining cultural differences across societies and organizations. Based on research conducted in 61 countries, the project focuses particularly on the relationship between culture and leadership. Unlike approaches that treat national cultures as entirely homogeneous, the GLOBE framework also recognizes that cultural differences may exist within the same country, for example across regions with different languages, values, religions, and traditions.

Similar to Hofstede's framework, the GLOBE project identifies a set of cultural dimensions that can be used to compare societal and organizational cultures. The model includes nine dimensions: power distance, uncertainty avoidance, institutional collectivism, in-group collectivism, gender egalitarianism, assertiveness, humane orientation, performance orientation, and future orientation (House et al., 2004).

Power distance refers to the extent to which unequal distribution of power is accepted within a society. Uncertainty avoidance describes the degree to which societies rely on norms, rules, and laws to deal with uncertain or unfamiliar situations. Institutional collectivism concerns the extent to which social and institutional practices encourage collective action and collective

distribution of rewards, while in-group collectivism refers to loyalty and cohesion within families, organizations, or close social groups (House et al., 2004).

Gender egalitarianism reflects the degree to which gender inequalities are minimized in a society. Assertiveness captures the extent to which individuals are encouraged to be competitive, direct, and forceful in social relationships. Humane orientation refers to the degree to which societies promote values such as fairness, generosity, kindness, and care for others. Performance orientation describes the extent to which societies encourage and reward achievement, excellence, and improvement. Finally, future orientation reflects the degree to which individuals and societies engage in planning, delayed gratification, and future-oriented behavior (House et al., 2004).

2.2.4 Psychic Distance

Psychic distance refers to a manager's subjective perception of the differences between the home market and a foreign market. Unlike cultural distance, which is usually examined at the national level, psychic distance focuses on how individual managers understand and interpret the distance between two international markets (Avloniti and Filippaios, 2014). For this reason, psychic distance cannot be assessed only through objective indicators such as education levels, religion, language, or other publicly available country-level statistics.

Sousa and Lages (2011) argue that psychic distance consists of two main dimensions. The first is country characteristics distance, which includes differences in economic development, communication infrastructure, marketing systems, technical requirements, market competitiveness, and legal regulations. The second is people characteristics distance, which refers to differences in per-capita income, customer purchasing power, consumer lifestyles and preferences, education levels, language, and cultural values such as beliefs, attitudes, and traditions.

By analyzing psychic distance at the individual managerial level, firms can better understand how managers perceive foreign markets and take steps to reduce perceived distance (Sousa and Bradley, 2005, 2006). In international marketing, managers' perceptions of psychic distance may influence the extent to which firms standardize or adapt their marketing mix. More specifically, when psychic distance between two markets is perceived as high, greater adaptation of product, price, place, and promotion may be required (Hollensen, 2020).

2.2.5 Formal vs Informal Institutional Distance

Institutional theory provides an important foundation for understanding how the external environment shapes firms' internationalization decisions. North defines institutions as the humanly created constraints that structure social, political and economic interaction. In this view, institutions reduce uncertainty by providing a framework within which individuals and organizations know what kinds of behaviour are expected, accepted or restricted. Therefore, institutions do not only regulate formal economic exchange, but also shape broader patterns of interaction within a society. North also emphasizes the distinction between institutions and

organizations: institutions represent the rules of the game, while organizations are the players that operate within those rules and adapt their strategies accordingly (North, 1990).

North (1990) further distinguishes between formal and informal institutions. Formal institutions refer to explicitly defined and codified rules, such as constitutions, laws, political and judicial rules, economic rules, property rights and contracts. These formal rules provide the legal and regulatory structure within which economic actors operate. They are particularly important in more complex societies, where written rules, legal systems and contracts help regulate exchange, reduce uncertainty and define the rights and obligations of different actors.

Informal institutions, on the other hand, consist of socially embedded norms, conventions, codes of conduct and shared understandings that guide behaviour in everyday interactions. North (1990) argues that even in highly developed economies, formal rules represent only one part of the institutional framework, while informal constraints strongly influence how people behave in families, social relations and business activities. These informal institutions are closely linked to culture because they are transmitted through social learning and tend to persist over time. As a result, changes in formal rules do not automatically change informal patterns of behaviour, since norms, values and conventions may remain stable even when laws or regulations are modified (North, 1990).

Building on this theoretical distinction, institutional distance refers to the degree of difference between the institutional environments of a firm's home country and host country. In the context of international business, such differences are important because they influence how familiar or unfamiliar a multinational enterprise is with the foreign market environment. Zhang et al. distinguish between formal and informal institutional distance. Formal institutional distance captures differences between countries in formal rules and their enforcement, including laws, regulations, constitutions and other legal or political arrangements. Informal institutional distance refers to differences in shared norms, beliefs, conventions, values, practices, codes of conduct and interpretive frameworks between countries (Zhang et al., 2023).

Institutional distance is especially relevant for foreign market entry mode choice because entering a foreign market requires firms to decide how much ownership, control and resource commitment they are willing to assume. Zhang et al. focus on equity-based entry modes, such as wholly owned subsidiaries and joint ventures, because the level of equity ownership reflects the degree of control that the parent firm exercises over its foreign operation. Their meta-analysis shows that the relationship between institutional distance and entry mode choice has been inconsistent in prior research, with some studies suggesting that high institutional distance leads firms to choose lower-control modes, while others suggest that firms may prefer higher-control modes to manage uncertainty more directly (Zhang et al., 2023).

2.3 Theoretical Perspectives

2.3.1 Transaction Cost Theory

Transaction Cost Theory explains how firms choose the most efficient way to organize economic activities. The main idea is that transactions are not costless. Firms face costs when they search for information, negotiate agreements, monitor partners and enforce contracts.

Williamson (1985) argues that these costs become especially important because managers operate under bounded rationality and because exchange partners may behave opportunistically. Bounded rationality means that firms cannot predict all future situations when contracts are created, while opportunism refers to the possibility that one party may use uncertainty, information asymmetry or contractual gaps for its own advantage. For this reason, firms need governance structures that reduce uncertainty, protect strategic assets and limit the risk of opportunistic behaviour (Williamson, 1985).

According to Williamson (1985), the most suitable governance structure depends on the characteristics of the transaction. Three important factors are asset specificity, uncertainty and transaction frequency. Asset specificity is particularly important because it refers to investments that are valuable within a specific relationship but have limited value outside that relationship. When asset specificity is high, a firm becomes more dependent on its partner and more exposed to potential opportunism. In such cases, relying only on market-based arrangements may be risky, and firms may prefer governance structures that provide stronger control. This logic is relevant for international business because foreign market entry requires firms to decide how much ownership and control they want to maintain over their foreign operations (Williamson, 1985).

In foreign market entry research, Transaction Cost Theory views entry mode choice as a governance decision. Anderson and Gatignon (1986) explain that different entry modes provide different levels of control. Low-control modes, such as licensing, require fewer resources but give the firm limited control over activities in the foreign market. High-control modes, such as wholly owned subsidiaries, allow firms to better coordinate operations, protect knowledge and reduce the risk of partner opportunism. However, they also require greater resource commitment and expose the firm to higher financial and operational risk. Joint ventures represent an intermediate option because they allow firms to share ownership, resources and risks with a local partner while still maintaining some degree of control (Anderson & Gatignon, 1986).

From this perspective, firms are more likely to choose high-control entry modes when transaction costs in the foreign market are high. This may occur when the firm owns valuable technology, know-how, brand assets or other firm-specific resources that are difficult to protect through contracts. In such situations, cooperation with an external partner may increase the risk of knowledge leakage or opportunistic behaviour. A wholly owned subsidiary can therefore be attractive because it gives the firm stronger control over strategic assets and foreign operations. However, when uncertainty is high and the firm lacks local market knowledge, a joint venture may be more suitable, since a local partner can provide access to market-specific knowledge, networks and institutional understanding (Anderson & Gatignon, 1986).

2.3.2 Institutional Theory

Institutional Theory explains how firms' decisions are shaped by the institutional environment in which they operate. Unlike approaches that focus only on efficiency or internal firm resources, Institutional Theory emphasizes that organizations must also adapt to external rules, expectations and socially accepted practices. Scott (2013) explains institutions through three

main pillars: regulative, normative and cultural-cognitive. The regulative pillar refers to formal rules, laws, regulations and enforcement mechanisms. The normative pillar includes values, norms and expectations about appropriate behaviour, while the cultural-cognitive pillar refers to shared beliefs and taken-for-granted assumptions that influence how actors interpret reality. Together, these institutional pillars create the framework within which firms make strategic decisions and seek legitimacy (Scott, 2013).

A central idea of Institutional Theory is that firms do not operate independently from their environment. In order to survive and be accepted, organizations need to align their behaviour with the institutional conditions of the market in which they operate. This means that firms often adapt their structures, strategies and practices not only because such choices are economically efficient, but also because they are considered legitimate by governments, customers, partners and other stakeholders. Legitimacy is therefore important because firms that do not fit local institutional expectations may face distrust, regulatory pressure or difficulties in building relationships with local actors. This is especially relevant for multinational enterprises, since they operate across different national environments and must respond to institutional pressures in both home and host countries (Scott, 2013).

In international business, Institutional Theory is closely connected to the institution-based view of strategy. Peng et al. (2008) argue that institutions represent an important set of constraints and opportunities that influence firm behaviour, especially in foreign and emerging markets. From this perspective, firms' international strategies are shaped not only by industry conditions and firm-specific resources, but also by the formal and informal institutions of the host country. Formal institutions include laws, regulations and political systems, while informal institutions include norms, values, traditions and accepted business practices. When firms enter foreign markets, differences in these institutional conditions can increase uncertainty and make it more difficult to understand how business should be conducted locally (Peng et al., 2008).

Institutional Theory is particularly useful for explaining foreign market entry mode choice. When the host-country institutional environment is unfamiliar, unstable or very different from the home-country environment, firms may need to adjust their entry strategy. A joint venture can be attractive because a local partner may provide knowledge about regulations, business networks, customer expectations and informal practices. This can help the foreign firm gain legitimacy and reduce uncertainty in the host market. On the other hand, a wholly owned subsidiary may be preferred when the firm wants stronger control over its operations, technology and strategic resources. Therefore, Institutional Theory suggests that entry mode choice is not determined only by cost efficiency, but also by the firm's need to adapt to host-country institutions and gain acceptance in the local environment (Peng et al., 2008).

2.3.3 Internalization Theory

Internalization Theory is one of the key theories used to explain why multinational enterprises exist and why firms choose to organize certain activities within their own boundaries instead of relying on external market transactions. The theory argues that firms expand internationally when it is more efficient to internalize cross-border activities than to coordinate them through external markets. This is especially important when markets are imperfect and when valuable

firm-specific assets, such as knowledge, technology, managerial capabilities or brand-related resources, are difficult to transfer through contracts. In such situations, using the market may expose the firm to risks such as knowledge leakage, imitation or opportunistic behaviour by external partners. Therefore, firms may prefer to keep these activities under internal control in order to protect their competitive advantages (Buckley & Casson, 1976).

A central idea of Internalization Theory is that knowledge and other intangible assets are often difficult to price, monitor and protect in external transactions. Unlike physical products, knowledge can be transferred, copied or used by another party in ways that are difficult to fully control through contracts. When a firm possesses valuable know-how or technology, licensing it to a foreign partner may create a risk that the partner will misuse the knowledge or become a future competitor. For this reason, the firm may decide to internalize the foreign operation and establish its own subsidiary abroad. By doing so, the firm can maintain stronger control over its resources, reduce the risk of unwanted knowledge diffusion and coordinate foreign activities more effectively (Buckley & Casson, 1976).

In the context of foreign market entry mode choice, Internalization Theory explains why firms select different entry modes depending on the efficiency of using external markets. Buckley and Casson (1998) argue that entry strategy depends on whether the firm can efficiently exploit its advantages through the market or whether internal organization is more suitable. Low-control modes, such as licensing, may be appropriate when the risk of knowledge leakage is low and when contracts can effectively regulate the relationship with a foreign partner. However, when the firm's competitive advantage is based on sensitive knowledge, complex technology or strong brand assets, higher-control modes may be preferred because they allow the firm to protect and exploit these advantages more safely (Buckley & Casson, 1998).

Internalization Theory is particularly relevant for explaining the choice between licensing, joint ventures and wholly owned subsidiaries. Licensing allows the firm to enter a foreign market with relatively low resource commitment, but it also involves lower control. A joint venture may be useful when the firm needs access to local knowledge, distribution networks or institutional understanding from a local partner, while still keeping partial control over its strategic assets. A wholly owned subsidiary provides the highest level of control and is more likely when the firm wants to protect proprietary knowledge, coordinate international activities closely and avoid dependence on external partners. Therefore, from an internalization perspective, firms are more likely to choose higher-control entry modes when market imperfections are strong and when internal control provides a more efficient way to exploit firm-specific advantages abroad (Buckley & Casson, 1998).

2.3.4 Eclectic Paradigm (OLI)

The Eclectic Paradigm, also known as the OLI framework, is one of the most influential theories for explaining international production and foreign market entry decisions. Dunning (1988) argues that firms engage in foreign direct investment when three types of advantages are present: ownership advantages, location advantages and internalization advantages. Ownership advantages refer to firm-specific resources and capabilities that give a company a competitive advantage over local firms in a foreign market. These may include technology, managerial

knowledge, brand reputation, organizational capabilities or other intangible assets. Without such advantages, foreign firms would find it difficult to compete abroad because they usually face additional costs related to unfamiliar markets, cultural differences and foreign regulations (Dunning, 1988).

The second component of the OLI framework is location advantage. Location advantages refer to host-country characteristics that make it attractive for a firm to conduct business activities in a specific foreign market. These advantages may include market size, growth potential, availability of resources, labour costs, infrastructure, political and legal conditions, or proximity to customers. If a foreign market offers strong location-specific advantages, the firm may have a stronger motivation to establish operations there instead of serving the market only through exporting. Therefore, location advantages help explain why firms choose one country over another when expanding internationally (Dunning, 1988).

The third component is internalization advantage. This refers to the benefits a firm gains by keeping certain activities within its own organizational boundaries instead of transferring them to external partners through licensing or contractual agreements. Internalization becomes important when external market transactions are costly or risky, especially when the firm needs to protect valuable knowledge, technology or brand-related assets. If contracts are difficult to monitor or if there is a risk of imitation and opportunistic behaviour, the firm may prefer a higher-control entry mode. In this sense, the internalization component of the OLI framework is closely connected to the question of whether a firm should rely on external partners or establish its own foreign operation (Dunning, 1988).

In foreign market entry mode research, Agarwal and Ramaswami (1992) apply the OLI logic to explain why firms choose between different entry modes, such as exporting, licensing, joint ventures and wholly owned subsidiaries. Their approach suggests that entry mode choice depends on the combined influence of ownership, location and internalization factors. When a firm has strong ownership advantages and needs to protect its knowledge or strategic resources, it is more likely to prefer a higher-control mode such as a wholly owned subsidiary. However, when the firm lacks local market knowledge or faces high uncertainty in the host country, a joint venture may be more suitable because a local partner can provide access to market knowledge, networks and institutional understanding (Agarwal & Ramaswami, 1992).

From the OLI perspective, entry mode choice is therefore not based on one single factor. Instead, firms compare their own resources, the attractiveness of the host market and the benefits of internal control. Exporting or licensing may be appropriate when the firm wants to enter with lower resource commitment and when the risk of losing strategic knowledge is limited. Joint ventures may be preferred when the firm needs local support and wants to share risk with a partner. Wholly owned subsidiaries are more likely when the firm has strong firm-specific advantages and wants to maintain full control over foreign operations. The Eclectic Paradigm is therefore useful for explaining how firms align their entry mode decisions with their competitive advantages, host-country conditions and need for internal control (Agarwal & Ramaswami, 1992).

2.3.5 Resource-Based View

The Resource-Based View explains firm strategy by focusing on internal resources and capabilities rather than only on external market conditions. According to this perspective, firms differ because they do not possess the same resources, knowledge, skills and organizational capabilities. Barney (1991) argues that resources can create a sustained competitive advantage when they are valuable, rare, difficult to imitate and difficult to substitute. Valuable resources help the firm exploit opportunities or reduce threats, while rare resources allow the firm to differentiate itself from competitors. However, a competitive advantage can be sustained only when other firms cannot easily copy or replace these resources. Therefore, the Resource-Based View suggests that firm-specific assets are central to understanding why some firms perform better than others (Barney, 1991).

In international business, the Resource-Based View is useful because foreign market entry requires firms to transfer and use their resources in a new environment. These resources may include technological knowledge, managerial experience, brand reputation, marketing capabilities, organizational routines and international experience. When a firm owns strong and transferable resources, it may be more confident in entering foreign markets with a higher level of control. This is because stronger control allows the firm to use its capabilities directly, protect strategic knowledge and coordinate foreign operations according to its own standards. In contrast, when a firm lacks local market knowledge or does not possess all the resources needed for successful entry, cooperation with a local partner may become more attractive (Barney, 1991).

Madhok (1997) applies this logic to foreign market entry mode choice by arguing that entry decisions should not be explained only through transaction costs, but also through the firm's capabilities and value-creation potential. From this perspective, firms choose entry modes based on how effectively they can use, protect and develop their resources in the foreign market. A wholly owned subsidiary may be preferred when the firm has strong firm-specific advantages and wants to maintain full control over their use. This mode enables the firm to protect knowledge, apply its routines consistently and capture more value from its own resources. However, it also requires greater commitment and assumes that the firm has enough capabilities to operate successfully in the host country (Madhok, 1997).

A joint venture may be more suitable when the foreign firm needs complementary resources from a local partner. These resources can include knowledge of local customers, distribution channels, government relations, institutional understanding or access to business networks. In this case, the entry mode is not only a way to reduce risk, but also a way to combine different capabilities and create value in the host market. Therefore, the Resource-Based View suggests that entry mode choice depends on the relationship between the firm's own resources and the resources required in the foreign market. Firms are more likely to choose high-control modes when they can rely on strong internal capabilities, while shared-control modes may be preferred when local complementary resources are necessary for successful market entry (Madhok, 1997).

2.3.6 Organizational Learning Theory

Organizational Learning Theory explains how firms improve their decisions and behaviour through the accumulation, interpretation and use of experience. The main idea is that organizations learn over time by transforming previous experiences into knowledge, routines and practices that guide future actions. Levitt and March (1988) argue that firms do not learn only through individual managers, but also through organizational routines, procedures and shared interpretations. These routines store knowledge from past activities and help the firm respond to similar situations in the future. In this sense, learning reduces uncertainty because firms become more capable of recognizing problems, evaluating alternatives and adapting their strategies based on what they have experienced before (Levitt & March, 1988).

In the context of international business, organizational learning is especially important because firms face high uncertainty when entering foreign markets. A company may not fully understand local customers, regulations, cultural norms, competitors or business practices at the beginning of its international expansion. Through repeated foreign market experience, the firm gradually develops knowledge about how to operate across borders. This experience can improve the firm's ability to evaluate risks, select appropriate partners, adapt products and manage foreign subsidiaries. Therefore, international experience becomes a valuable learning process that can influence how confidently firms enter new markets and how much control they are willing to take in their foreign operations (Levitt & March, 1988).

Barkema, Bell and Pennings (1996) apply this learning logic to foreign market entry by showing that international expansion is influenced by what firms learn from previous entries. Their argument is that firms become better at dealing with foreign environments as they accumulate experience in different countries and entry situations. However, learning is more difficult when the new market is culturally or institutionally very different from the firm's previous experience. In such cases, firms may face stronger barriers because routines developed in familiar markets may not work equally well in unfamiliar environments. This means that organizational learning is not automatic; firms must be able to transfer, adjust and develop their knowledge when entering new foreign markets (Barkema et al., 1996).

Organizational Learning Theory is useful for explaining foreign market entry mode choice because the level of a firm's international experience can shape its preferred entry strategy. Firms with limited foreign market knowledge may prefer joint ventures because a local partner can provide access to local networks, market information and institutional understanding. This can reduce uncertainty and help the firm learn about the host country. In contrast, firms with greater international experience may be more willing to choose high-control entry modes, such as wholly owned subsidiaries, because they have already developed routines and capabilities for managing foreign operations. Therefore, from an organizational learning perspective, entry mode choice depends not only on costs or resources, but also on the firm's accumulated experience and ability to learn from previous international activities (Barkema et al., 1996).

3. Methodology

3.1 Research Design

This thesis applies a **systematic literature review** approach to examine how cultural differences influence firms' choice of foreign market entry modes. A literature review is appropriate for this research because the literature on cultural differences, cultural distance, institutional distance, and entry mode choice is broad, interdisciplinary, and fragmented. Snyder (2019) explains that literature reviews are especially useful in business research when previous findings are dispersed across different studies and when the aim is to synthesize collective evidence in a specific research area. A literature review can therefore provide an overview of existing knowledge, identify patterns and contradictions, and reveal areas where further research is needed.

The present study follows a systematic review logic because the research question is clearly defined and the review aims to collect, evaluate, and synthesize empirical evidence in a transparent way. According to Snyder (2019), a systematic literature review is a structured research method for identifying, appraising, and analysing relevant research. Its purpose is to reduce bias by using explicit search procedures and clearly defined inclusion and exclusion criteria. This is particularly important in the present thesis because earlier studies on cultural distance and entry mode choice often report mixed or contradictory findings. Some studies associate cultural distance with joint ventures, while others find that it may lead to wholly owned subsidiaries, greenfield investments, acquisitions, or non-equity modes.

The research design follows the general phases of a literature review described by Snyder (2019): designing the review, conducting the review, analysing the literature, and writing up the review. In the design phase, the research question, search strategy, and inclusion and exclusion criteria were developed. In the conducting phase, relevant studies were identified through database searches and screened for relevance. In the analysis phase, the selected studies were coded and categorized. In the final phase, the results were synthesized according to the main analytical categories identified in the coding process.

The final empirical sample consists of **58 empirical studies**. These studies form the basis of the results chapter. In addition, **seven papers** were classified as theory-only, review, or meta-analysis papers. These seven papers are not part of the empirical synthesis, but they are used to support the theoretical background and comparison with previous literature. This distinction ensures that the results chapter is based only on primary empirical studies, while broader theoretical and review-based sources are used for contextualization.

3.2 PRISMA Framework

To document the literature selection process transparently, this thesis follows the logic of the **PRISMA framework**. PRISMA stands for **Preferred Reporting Items for Systematic Reviews and Meta-Analyses**. Snyder (2019) refers to PRISMA as one of the established reporting standards used in systematic reviews and meta-analyses. The PRISMA framework is

useful because it helps researchers report how studies were identified, screened, assessed for eligibility, and finally included in the review (Moher et al., 2009; Snyder, 2019).

Although PRISMA was originally developed in medical and health-related research, its logic can be adapted to business and management research. In this thesis, PRISMA is not used as a medical checklist, but as a transparent reporting structure for the study selection process. This is consistent with Snyder's (2019) argument that literature reviews should clearly explain how the literature was identified, analysed, synthesized, and reported. Transparency is essential because it allows the reader to evaluate the quality and trustworthiness of the review process.

The PRISMA logic was applied in four main stages: **identification, screening, eligibility, and inclusion**.

3.3 Search Strategy

The literature search was conducted in two major academic databases: **Scopus** and **Web of Science**. These databases were selected because they provide broad coverage of peer-reviewed journal articles in business, management, and international business research. Using more than one database increases the likelihood of identifying relevant studies and improves the transparency and reproducibility of the review process. This is consistent with the recommendations of Snyder (2019), who emphasizes that literature reviews should clearly document the search strategy, databases, search terms, and inclusion and exclusion criteria. Kraus et al. (2020) also recommend using academic databases and peer-reviewed journal articles as the main basis for systematic literature reviews.

The search strategy was based on three keyword blocks. The first block captured **cultural concepts**, the second block captured **foreign market entry mode terms**, and the third block captured the **firm-level context**. Boolean operators were used to combine these terms. Specifically, **OR** was used within each keyword block to include synonyms, while **AND** was used between the blocks to ensure that the retrieved studies addressed both cultural differences and entry mode choice. The search was conducted in the fields **title, abstract, and keywords**.

Table 3.1. Keyword Blocks Used in the Search Strategy

Search block	Keywords used
Cultural concepts	cultural distance; cultural differences; Hofstede; GLOBE
Market entry modes	entry mode; market entry; foreign market entry; entry strategy; joint venture; wholly owned subsidiary; acquisition; greenfield; franchising; licensing
Firm-level focus	firm; company; multinational; multinational enterprise; MNE

Databases

The search was conducted in:

-Scopus

-Web of Science

The initial database search identified 930 records in total. Of these, 372 records were retrieved from Scopus and 558 records from Web of Science.

Scopus Search String

The Scopus search was conducted using the TITLE-ABS-KEY field:

(TITLE-ABS-KEY ("cultural distance" OR "cultural differences" OR Hofstede OR GLOBE)) AND (TITLE-ABS-KEY ("entry mode" OR "market entry" OR "foreign market entry" OR "entry strategy" OR "joint venture" OR "wholly owned subsidiary" OR "acquisition" OR "greenfield" OR "franchising" OR "licensing")) AND (TITLE-ABS-KEY (firm* OR company OR multinational OR MNE*)) AND (PUBYEAR > 1994 AND PUBYEAR < 2026) AND (LIMIT-TO (SUBJAREA , "BUSI")) AND (LIMIT-TO (DOCTYPE , "ar") OR LIMIT-TO (DOCTYPE , "re")) AND (LIMIT-TO (SRCTYPE , "j")) AND (LIMIT-TO (LANGUAGE , "English"))

Web of Science Search String

The Web of Science search was conducted using the Topic Search (TS) field:

TS=("cultural distance" OR "cultural differences" OR Hofstede OR GLOBE) AND TS=("entry mode" OR "market entry" OR "foreign market entry" OR "entry strategy" OR "joint venture" OR "wholly owned subsidiary" OR acquisition OR greenfield OR franchising OR licensing) AND TS=(firm* OR company OR multinational OR MNE*) AND TS=("international business" OR "cross-border" OR IB) AND PY=(1995-2025)

Filters Applied

To ensure that the review focused on relevant academic literature, several filters were applied. The search was limited to the period **1995–2025**, because the review aims to capture three decades of research on cultural differences and entry mode choice. The subject area was limited to **Business / Management**, and only **journal articles and reviews** were included. The language was restricted to **English**, and the source type was limited to **journals**.

Table 3.2. Filters Applied During the Database Search

Filter	Specification
Time period	1995–2025
Subject area	Business / Management
Document type	Articles and reviews
Language	English
Source type	Journals
Search fields	Title, abstract, keywords

The inclusion of review articles in the database search was useful because review and meta-analysis papers helped contextualize the topic and identify relevant theoretical discussions. However, review articles and meta-analyses were not included in the final empirical sample. They were retained separately for the theoretical background and discussion. The final empirical synthesis includes only primary empirical studies.

The search strategy follows the recommendation that systematic literature reviews should be transparent and reproducible. Snyder (2019) argues that a literature review should clearly report how the literature was identified, analysed, synthesized, and reported. Similarly, Kraus et al. (2020) emphasize the importance of documenting databases, search strings, filters, and the selection process in order to increase transparency and reduce selection bias.

3.4 Inclusion and Exclusion Criteria

The inclusion and exclusion criteria were developed to ensure that the final sample was directly aligned with the research question. Studies were included if they were peer-reviewed, published in English, situated in an international business context, and focused on cultural differences and foreign market entry mode choice.

Studies were excluded if they were non-peer-reviewed, purely domestic, unrelated to cultural or institutional variables, or focused only on financial aspects of mergers and acquisitions. Review articles and meta-analyses were retained for theoretical and discussion purposes but excluded from the final empirical sample.

3.5 Study Selection Process

The study selection process followed the logic of the PRISMA framework and consisted of four stages: identification, screening, eligibility, and inclusion. This structure was used to ensure transparency and replicability in the selection of studies. Snyder (2019) emphasizes that literature reviews should clearly report how studies were identified, selected, analysed, and synthesized. Similarly, Kraus et al. (2020) argue that systematic literature reviews should document the search and selection process in a transparent and reproducible way.

Identification

In the identification stage, records were collected from two academic databases: **Scopus** and **Web of Science**. The initial search resulted in **930 records** in total. Of these, **372 records** were

identified through Scopus and **558 records** through Web of Science. After the database search, all records were exported and imported into **Zotero** for reference management and duplicate detection. Zotero was used to organize the search results and to identify duplicate records appearing in both Scopus and Web of Science. Using Zotero's duplicate detection function, **146 duplicate records** were identified and removed. After duplicate removal, **784 unique records** remained for title screening.

Screening

In the screening stage, the remaining records were first assessed based on their titles. During title screening, **531 records** were excluded because they were not directly related to cultural differences, international business, or foreign market entry mode choice. After title screening, **253 records** remained for abstract screening.

The abstracts of these 253 records were then reviewed in more detail. During abstract screening, **188 records** were excluded because they did not meet the inclusion criteria. The most common reasons for exclusion were lack of relevance to entry mode choice, absence of cultural or institutional variables, or a purely domestic research context. After abstract screening, **65 records** remained for full-text assessment.

Eligibility

In the eligibility stage, the full texts of the remaining **65 articles** were assessed. Each article was checked against the inclusion and exclusion criteria. Studies had to examine foreign market entry mode choice and include cultural differences, cultural distance, psychic distance, or informal institutional distance as a relevant factor. During full-text screening, **7 articles** were excluded because they did not meet the final eligibility criteria.

Included Studies

After the full-text screening process, **58 studies** were included in the final systematic literature review. These studies form the empirical basis of the results and discussion chapters.

Table 3.3. PRISMA-Based Study Selection Process

Stage	Step	Number of records
Identification	Records identified through Scopus	372
	Records identified through Web of Science	558
	Total records identified	930
	Duplicates removed	146
	Records after duplicates removed	784
Screening	Records excluded after title screening	531
	Records remaining for abstract screening	253

	Records excluded after abstract screening	188
	Records remaining for full-text screening	65
Eligibility	Full-text articles excluded	7
Included	Studies included in the final review	58

3.6 Data Extraction and Coding Framework

After the final sample of studies was selected, the relevant information from each article was extracted and organized in an Excel-based coding framework. The use of a structured coding sheet is important in systematic literature reviews because it allows the researcher to record information consistently across studies and to make the analysis transparent and traceable. Snyder (2019) emphasizes that, after the final sample is selected, the researcher should decide which information needs to be extracted from each study in order to answer the research question.

The coding framework was developed in Excel and used as the main data extraction tool for this review. Each study was coded in one row, while the columns represented the main descriptive, methodological, theoretical, and analytical categories. This approach follows the recommendation by Kraus et al. (2020), who argue that systematic literature reviews should use a transparent data extraction protocol and that Excel can be a useful tool for organizing the review process.

The main coding sheet contained information on the authors, publication year, country or region, industry, sample, theoretical perspective, cultural framework, entry mode, method, main finding, relevance to the research question, classification, and final decision. The purpose of this coding framework was not only to summarize each article, but also to enable a concept-based synthesis of the literature. Kraus et al. (2020) emphasize that systematic reviews should synthesize studies around concepts rather than simply summarize articles author by author.

4. Results

4.1 Overview of the Selected Studies

The final sample of this systematic literature review consists of **58 empirical studies** examining the relationship between cultural differences and foreign market entry mode choice. In addition, **seven studies** were coded as theory-only, review, or meta-analysis papers and were therefore excluded from the empirical synthesis. These papers are not part of the final empirical sample, but they can still be used in the theoretical background and discussion sections.

The included studies were published between **1995 and 2025**, showing that the topic has been researched for approximately three decades. Most studies were published after 2000, with the largest concentration appearing in the 2010s. This suggests that cultural distance and entry

mode choice became especially prominent topics in international business research during the last two decades.

The empirical studies cover a broad range of geographic contexts. Some studies focus on firms from developed economies, such as Dutch, Finnish, German, Spanish, French, Italian, Japanese, Norwegian, Swedish, Nordic, and US firms. Others examine firms from emerging or developing economies, especially Chinese, Indian, Brazilian, Turkish, Ghanaian, UAE, and Lebanese firms. This geographic diversity is important because firms from developed and emerging economies may respond differently to cultural distance, institutional distance, and foreign market uncertainty.

The studies also vary in terms of industry coverage. A majority of the sample uses multiple-industry or cross-industry datasets. Other studies focus on manufacturing, hotels, services, retail, banking, high-technology industries, or SMEs. This variation shows that the relationship between cultural differences and entry mode choice is not limited to one specific industry.

Table 4.1. Descriptive Profile of the Included Empirical Studies

Category	Sub-category	Number of studies	Share of empirical sample
Publication period	1990s	5	8.6%
	2000s	18	31.0%
	2010s	23	39.7%
	2020s	12	20.7%
Geographic focus	Global / multi-region	21	36.2%
	European contexts	17	29.3%
	Asia / emerging-market contexts	14	24.1%
	North American / US contexts	3	5.2%
	Latin American contexts	2	3.4%
	Middle East contexts	1	1.7%
Industry focus	Multiple / cross-industry	35	60.3%
	Manufacturing / industrial sectors	13	22.4%
	Services / hospitality / retail	8	13.8%
	Banking / financial services	1	1.7%
	High-technology industries	1	1.7%

Methodologically, the reviewed literature is strongly dominated by quantitative research designs. The most frequently used method is logistic or logit regression, including binary logistic regression, multinomial logit models, and binomial logistic regression. This is expected

because many entry mode decisions are categorical choices, such as joint venture versus wholly owned subsidiary or greenfield investment versus acquisition.

A smaller number of studies use Tobit models, OLS regression, panel models, event history analysis, ordered probit, PLS-SEM, fsQCA, qualitative case study methods, or non-parametric survey analysis. Overall, the methodological profile shows that the literature is mainly quantitative and regression-based.

The entry mode decisions examined in the reviewed studies can be grouped into several broad categories. The largest group of studies focuses on **ownership mode choice**, especially the distinction between **joint ventures and wholly owned subsidiaries** or related ownership-level decisions. A second group examines **equity versus non-equity modes**, including exporting, licensing, franchising, contractual agreements, alliances, and FDI. A third group studies **establishment mode choice**, mainly the decision between **greenfield investment and acquisition**.

Table 4.2. Analytical Focus of the Included Empirical Studies

Analytical category	Sub-category	Number of studies	Share of empirical sample
Main entry mode focus	Ownership mode / ownership level	31	53.4%
	Equity vs non-equity / broad entry modes	13	22.4%
	Establishment mode: Greenfield vs Acquisition	11	19.0%
	Cooperation / alliance vs acquisition	3	5.2%
Methodological approach	Logistic / logit regression	47	81.0%
	OLS / Tobit / mixed regression	3	5.2%
	Panel / random-effects models	2	3.4%
	Event history / survival analysis	1	1.7%
	PLS-SEM	1	1.7%
	Ordered probit	1	1.7%
	Qualitative / case study	1	1.7%
	fsQCA / configurational method	1	1.7%
	Survey / non-parametric tests	1	1.7%

The theoretical foundations of the reviewed studies are diverse, but some theories appear much more frequently than others. **Transaction Cost Theory** is the dominant theoretical perspective, appearing in most studies. This is consistent with the fact that entry mode choice is often treated as a governance decision involving control, uncertainty, opportunism, and transaction costs.

Institutional Theory is also frequently used, especially in studies that distinguish between formal and informal institutional distance. Other theoretical perspectives include the **Resource-Based View**, the **Eclectic Paradigm**, the **Uppsala model**, **Organizational Learning Theory**, **Internalization Theory**, **Knowledge-Based View**, **Bargaining Power Theory**, and **Contingency Theory**.

Overall, the descriptive overview shows that the literature is highly concentrated around three elements. First, most studies focus on **ownership mode choice**, especially joint ventures versus wholly owned subsidiaries. Second, most studies rely on **Transaction Cost Theory** to explain entry mode decisions. Third, the dominant cultural framework is **Hofstede-based cultural distance**, especially the Kogut and Singh index.

However, the sample also includes studies using GLOBE, psychic distance, Schwartz, and institutional distance, which indicates that the literature has gradually moved toward broader and more nuanced understandings of cultural differences.

These descriptive findings are important because they show that the empirical literature is not evenly distributed across all types of entry mode decisions. Ownership mode choice is much more frequently studied than establishment mode choice or equity versus non-equity decisions. Therefore, the strongest empirical basis for answering the research question comes from studies on **JV versus WOS** and ownership level, while the evidence on **greenfield versus acquisition** and broader entry mode categories is more fragmented.

4.2 Cultural Frameworks Used in Entry Mode Research

The reviewed studies show that cultural differences are operationalized through several different frameworks. The most dominant approach is the use of **cultural distance**, most often calculated through the **Kogut and Singh index** based on Hofstede's cultural dimensions. This means that most studies do not analyse individual cultural dimensions separately, but rather treat culture as an aggregate distance between the home and host country (Hofstede, 1980; Kogut & Singh, 1988; Tahir & Larimo, 2004; Tsang, 2005; Slangen & Hennart, 2008).

This Hofstede-based cultural distance approach is particularly common in studies examining ownership mode choice, such as joint ventures versus wholly owned subsidiaries. Several studies show that higher cultural distance increases the likelihood of joint ventures, because local partners can provide host-market knowledge, legitimacy, and help foreign firms reduce uncertainty in unfamiliar cultural environments (Tahir & Larimo, 2004; Wu et al., 2012; Xu et al., 2011). In this interpretation, cultural distance increases the need for local collaboration.

However, the reviewed literature also shows that the effect of cultural distance is not uniform. Some studies find that firms may prefer wholly owned subsidiaries in culturally distant markets because full ownership allows them to avoid potential conflicts with local partners and maintain stronger control over foreign operations (Tsang, 2005; Wang & Schaan, 2008). This suggests

that cultural distance can lead either to shared ownership or full ownership, depending on whether firms prioritize local legitimacy or internal control.

The Kogut and Singh index is also frequently used in studies on establishment mode choice, especially the decision between greenfield investment and acquisition. In this part of the literature, cultural distance is often linked to the difficulty of integrating an acquired local firm. High cultural distance can make acquisitions more complex because firms need to integrate different organizational routines, employee expectations, and management practices. Therefore, some studies find that firms are more likely to choose greenfield investment in culturally distant markets in order to avoid post-acquisition integration problems (Slangen & Hennart, 2008; Chueke & Borini, 2014).

A smaller group of studies uses **GLOBE** instead of Hofstede. This is important because GLOBE distinguishes between cultural **practices** and cultural **values**, which allows a more nuanced analysis of cultural differences. Studies using GLOBE suggest that the way culture is measured can influence empirical results, because cultural practices and cultural values may affect entry mode decisions differently (House et al., 2004; Chueke & Borini, 2014; Ramsey et al., 2013). Compared with Hofstede-based cultural distance, however, GLOBE appears less frequently in the reviewed entry mode literature.

Another relevant concept is **psychic distance**. Unlike cultural distance, psychic distance is broader and may include language, education, business practices, political systems, and managers' perceptions of foreign market unfamiliarity. This concept is useful because firms may not only react to objective cultural differences, but also to how distant or unfamiliar managers perceive a foreign market to be (Mayrhofer, 2004; Moalla & Mayrhofer, 2020). In the entry mode literature, psychic distance helps explain why firms may prefer lower-commitment or partner-based entry modes when entering unfamiliar markets.

More recent studies also conceptualize culture as part of **informal institutional distance**. These studies distinguish between **formal institutional distance**, such as legal, political, administrative, and financial differences, and **informal institutional distance**, which refers mainly to cultural norms, values, and social expectations. This distinction is important because formal and informal institutional distance may influence entry mode choice in different directions. For example, formal institutional distance may encourage firms to choose wholly owned subsidiaries or acquisitions in order to reduce partner-related transaction costs, while informal institutional distance may increase the likelihood of joint ventures because local partners help firms gain legitimacy in culturally distant markets (Chueke & Borini, 2014; Yang et al., 2023).

Overall, the reviewed literature indicates that **Hofstede-based cultural distance**, particularly the **Kogut and Singh index**, remains the dominant way of measuring cultural differences in entry mode research. GLOBE, psychic distance, and informal institutional distance are used less frequently, but they provide more differentiated explanations. A key finding of this review is therefore that the measurement of culture strongly shapes the conclusions of entry mode research. Studies using aggregate cultural distance often produce mixed results, while studies that distinguish between different types of distance or include moderating factors provide more

precise explanations of when cultural differences lead to joint ventures, wholly owned subsidiaries, greenfield investments, acquisitions, or lower-commitment entry modes.

Table 4.3. Cultural frameworks used in the reviewed literature

Cultural framework	How it is used in the reviewed studies	Main relevance for entry mode choice	Example references
Hofstede	Basis for cultural dimensions and cultural distance	Explains differences in values, uncertainty, control preferences and coordination problems	Hofstede (1980); Tahir & Larimo (2004); Tsang (2005)
Kogut & Singh Index	Most common aggregate measure of cultural distance	Used mainly for JV vs WOS and Greenfield vs Acquisition decisions	Kogut & Singh (1988); Slangen & Hennart (2008); Wang & Schaan (2008); Wu et al. (2012)
GLOBE	Distinguishes cultural practices and values	Shows that different cultural measures may lead to different findings	House et al. (2004); Chueke & Borini (2014); Ramsey et al. (2013)
Psychic Distance	Broader perceived distance between markets	Explains unfamiliarity and preference for cooperation or lower-commitment modes	Mayrhofer (2004); Moalla & Mayrhofer (2020)
Informal Institutional Distance	Culture as part of informal institutions	Helps separate cultural effects from formal institutional effects	Chueke & Borini (2014); Yang et al. (2023)

4.3 The Influence of Cultural Differences on Ownership Mode Choice

Ownership mode choice refers to the degree of ownership and control that a firm chooses when entering a foreign market. In the reviewed studies, this is most commonly examined through the distinction between **joint ventures (JVs)** and **wholly owned subsidiaries (WOSs)**. Some studies also analyse ownership more gradually, for example through **ownership level**, **foreign equity share**, or **equity stake**. Overall, ownership mode choice is one of the most frequently studied entry mode decisions in the literature on cultural differences and foreign market entry.

The reviewed studies show that cultural distance often increases the likelihood of choosing **joint ventures** rather than wholly owned subsidiaries. The main explanation is that culturally distant markets create uncertainty, information asymmetry, and legitimacy challenges for

foreign firms. In such contexts, a local partner can provide market knowledge, institutional understanding, access to networks, and legitimacy in the host country. Therefore, joint ventures may help firms reduce the risks associated with unfamiliar cultural environments. This pattern is visible in several studies that find a negative relationship between cultural distance and full ownership, suggesting that firms are more likely to choose shared ownership when cultural distance is high (Tahir & Larimo, 2004; Wu et al., 2012; Yang et al., 2023).

For example, Tahir and Larimo (2004) find that higher cultural distance decreases the likelihood of Finnish firms choosing wholly owned subsidiaries in Asian countries. Similarly, Wu et al. (2012) show that higher cultural distance increases the likelihood of joint ventures rather than wholly owned subsidiaries among Chinese firms. Yang et al. (2023) also distinguish between formal and informal institutional distance and show that informal institutional distance, which includes cultural differences, increases the likelihood of joint ventures because local partners can help firms overcome legitimacy problems.

However, the reviewed literature also shows that the relationship between cultural distance and ownership mode is not uniform. Some studies find that cultural distance may increase the likelihood of **wholly owned subsidiaries**. This opposite effect is usually explained through the need for control. In culturally distant markets, collaboration with local partners may become more difficult because of different expectations, communication problems, and coordination costs. In such cases, firms may prefer WOSs in order to avoid partner-related conflicts and maintain full control over foreign operations (Tsang, 2005; Wang & Schaan, 2008).

Tsang (2005), for instance, finds that higher cultural distance increases the likelihood of choosing WOS rather than equity joint ventures or business cooperation contracts in Vietnam. Wang and Schaan (2008) provide another important contribution by showing that the relationship between cultural distance and ownership mode may be nonlinear. Their findings suggest that joint ventures may be preferred at low-to-moderate levels of cultural distance, while wholly owned subsidiaries become more likely at very high levels of cultural distance. This indicates that cultural distance does not always have a simple linear effect on entry mode choice.

A third group of studies focuses not only on the binary choice between JV and WOS, but also on **ownership level** or **equity stake**. These studies are useful because they show that ownership mode choice is not always a simple either/or decision. Instead, firms may adjust the level of ownership depending on the degree of cultural, institutional, or political uncertainty. In this perspective, cultural distance may influence how much equity a foreign firm is willing to hold in the foreign subsidiary. Higher cultural distance can lead firms to reduce their ownership share in order to share risk with local partners, but in other cases it may increase ownership because firms want stronger control over operations and knowledge transfer (Tsang, 2005; Malhotra, 2012; Malhotra et al., 2016).

The reviewed evidence therefore suggests two competing mechanisms. On the one hand, cultural distance can increase the attractiveness of joint ventures because local partners provide legitimacy, knowledge, and support in unfamiliar markets. On the other hand, cultural distance can also increase the attractiveness of wholly owned subsidiaries because firms may want to avoid coordination problems and retain control. The direction of the effect depends on several

moderating factors, such as firm experience, host-country risk, institutional distance, industry, strategic objectives, and the type of foreign investment.

Overall, ownership mode choice is the most important area in which the influence of cultural differences can be observed. The reviewed studies do not support one universal conclusion. Instead, they show that cultural differences can lead to either joint ventures or wholly owned subsidiaries depending on the balance between the need for **local legitimacy** and the need for **internal control**. This makes ownership mode choice central for understanding how cultural differences influence foreign market entry strategies.

Table 4.4. Effects of Cultural Differences on Ownership Mode Choice

Ownership decision	Effect of cultural differences	Main explanation	Representative studies
JV vs WOS	Cultural distance often increases JV choice	Local partner provides legitimacy, market knowledge, and reduces uncertainty	Tahir & Larimo (2004); Wu et al. (2012); Yang et al. (2023)
WOS instead of JV	Cultural distance can also increase WOS choice	Firms avoid partner conflicts and maintain stronger control	Tsang (2005); Wang & Schaan (2008)
Ownership level / equity stake	Cultural distance may affect the percentage of foreign ownership	Firms adjust ownership depending on risk, control needs, and legitimacy concerns	Tsang (2005); Malhotra (2012); Malhotra et al. (2016)
Mixed / nonlinear effects	Effect depends on the level of cultural distance and other moderators	JV may be preferred at moderate cultural distance, while WOS becomes more likely at very high cultural distance	Wang & Schaan (2008)

4.4 The Influence of Cultural Differences on Establishment Mode Choice

Establishment mode choice refers to the decision whether a firm enters a foreign market by creating a new subsidiary from the ground up (**greenfield investment**) or by acquiring an existing local firm (**acquisition**). In the reviewed studies, this distinction appears less frequently than the ownership mode distinction between joint ventures and wholly owned subsidiaries, but it remains highly relevant for understanding how cultural differences influence foreign market entry decisions.

The reviewed literature suggests that cultural distance can increase the attractiveness of greenfield investments. One explanation is that acquisitions require the integration of an existing local organization, including its employees, routines, management practices, and

informal norms. When cultural distance between the home and host country is high, this integration process becomes more difficult because of communication problems, differences in managerial expectations, and potential conflicts between organizational cultures. For this reason, firms may prefer greenfield investments in culturally distant markets because this mode allows them to build the subsidiary according to their own routines, transfer internal practices more easily, and avoid the complexities of post-acquisition integration (Slangen & Hennart, 2008).

This pattern is visible in studies that find a positive relationship between cultural distance and greenfield entry. Slangen and Hennart (2008) show that Dutch multinational enterprises are generally more likely to choose greenfield investments rather than acquisitions when cultural distance is high. Their argument is that cultural distance increases the costs and difficulties of acquiring and integrating a foreign firm. Greenfield investment therefore becomes a way to reduce integration problems and maintain stronger internal consistency.

However, the relationship is not always straightforward. Some studies show that the effect of cultural or institutional distance depends on how distance is measured and on the strategic goal of the investment. Chueke and Borini (2014), for example, distinguish between different types of institutional distance and show that cultural distance can influence the choice between greenfield investment and acquisition differently from formal institutional distance. Their findings suggest that greater cultural distance may encourage greenfield investment, while some forms of formal institutional distance can make acquisitions more attractive. This indicates that cultural and formal institutional factors should not be treated as identical.

Other studies find that cultural distance may increase the likelihood of acquisitions. Martínez-Avella, Alarcón-León and Hernández-Salazar (2022), for instance, show that greater cultural distance increases the likelihood of acquisition over greenfield investment in Colombia. This finding suggests that acquisitions may help firms access local knowledge, resources, employees, market position, or legitimacy in culturally distant markets. Similarly, some studies on emerging-market firms show that acquisitions are often used to obtain strategic assets, technology, brands, or local capabilities, even when cultural or institutional distance is high (Rienda et al., 2018; Rienda et al., 2021).

A key insight from the reviewed studies is therefore that cultural differences do not automatically lead firms to avoid acquisitions. Instead, cultural distance increases the risks associated with acquisitions, especially because acquisitions require the integration of existing local resources and organizational practices. Greenfield investment offers more control and allows the investing firm to transfer its own routines into the host market. However, acquisitions may still be chosen when firms need rapid market access, local knowledge, established networks, brands, or strategic assets.

The reviewed literature also shows that the effect of cultural distance on establishment mode choice is moderated by firm-specific factors. Slangen and Hennart (2008) find that the positive effect of cultural distance on greenfield entry becomes weaker when firms have limited international experience or when subsidiaries are granted greater autonomy. Rienda et al. (2018) show that prior acquisition experience can make acquisitions more likely even in culturally distant countries. This means that firms do not react to cultural distance in the same way.

Experienced firms may be better able to manage culturally distant acquisitions, while autonomous subsidiaries may reduce integration pressure by allowing local adaptation.

Overall, the findings suggest that cultural distance tends to make greenfield investment more attractive when firms want to avoid post-acquisition integration problems and maintain internal control. At the same time, acquisitions may become attractive when firms need local knowledge, local legitimacy, market access, or strategic assets. Therefore, cultural differences influence greenfield versus acquisition decisions primarily by affecting the perceived costs and benefits of integration, control, and local resource access.

Table 4.5. Effects of Cultural Differences on Establishment Mode Choice

Establishment mode decision	Effect of cultural differences	Main explanation	Representative studies
Greenfield over Acquisition	Cultural distance may increase the likelihood of greenfield investment	Firms avoid post-acquisition integration problems, cultural conflicts, and difficulties in transferring organizational routines	Slangen & Hennart (2008); Chueke & Borini (2014); Rienda et al. (2021)
Acquisition over Greenfield	Cultural distance may also increase the likelihood of acquisition	Acquisitions provide immediate access to local knowledge, employees, brands, networks, and market position	Martínez-Avella et al. (2022); Lv et al. (2022)
No direct / weak effect	Cultural distance alone may not significantly determine establishment mode	Other factors such as international experience, acquisition experience, political risk, or administrative distance may be more important	Rienda et al. (2018); Moalla & Mayrhofer (2020)
Moderated effect	The effect of cultural distance depends on firm and host-country conditions	Experience, subsidiary autonomy, administrative distance, and strategic objectives can change whether firms choose greenfield or acquisition	Slangen & Hennart (2008); Rienda et al. (2018); Rienda et al. (2021)

4.5 The Influence of Cultural Differences on Equity and Non-equity Entry Modes

In addition to ownership mode and establishment mode, several studies examine broader entry mode choices between **equity** and **non-equity** modes. Equity entry modes include joint ventures, acquisitions, and wholly owned subsidiaries, while non-equity entry modes include exporting, licensing, franchising, management contracts, and contractual alliances. This distinction is important because it reflects different levels of resource commitment, control, risk, and flexibility.

The reviewed studies show mixed effects of cultural distance on the choice between equity and non-equity modes. In some studies, greater cultural distance reduces the likelihood of equity entry modes. This is consistent with the argument that culturally distant markets increase uncertainty and transaction costs, making firms less willing to commit substantial financial and managerial resources. For example, Quer, Claver and Andreu (2007) find that Spanish hotel firms are less likely to choose equity modes in culturally distant markets and more likely to rely on non-equity modes. Similarly, Majocchi, Mayrhofer and Camps (2013) show that greater cultural distance increases the likelihood of non-equity alliances rather than joint ventures among Italian firms.

However, other studies find the opposite effect. Some firms may choose equity modes in culturally distant markets because they need stronger control, local learning, or direct access to resources. Morschett, Schramm-Klein and Swoboda (2008), for example, find that higher cultural distance increases the likelihood of wholly owned subsidiaries in international after-sales service operations. Pla-Barber, Villar and León-Darder (2014) show that high cultural distance can increase the use of high resource-augmenting entry modes, such as joint ventures, acquisitions, and greenfields, in the hotel industry. Their explanation is that firms need stronger local learning and control when entering culturally distant markets.

The literature on SMEs also shows that cultural distance may encourage lower-commitment modes. SMEs generally have fewer resources and may therefore be more sensitive to cultural and political uncertainty. Slaiby and Matta (2025), for example, find that political risk significantly increases SMEs' preference for non-equity entry modes, while cultural distance alone is less clearly supported. This suggests that small firms may be more likely to avoid high-commitment entry modes when they face high external uncertainty.

In alliance research, cultural distance can also influence the choice between equity joint ventures and contractual alliances. Sengupta and Perry (1997) find that greater cultural differences between alliance partners increase the likelihood of equity joint ventures rather than contractual agreements. This suggests that when firms cooperate across culturally distant contexts, they may prefer equity-based alliances because these provide stronger coordination mechanisms and greater commitment than purely contractual arrangements.

Overall, the reviewed studies show that cultural differences influence the choice between equity and non-equity modes through two opposing logics. First, cultural distance may encourage non-

equity modes because they offer flexibility, reduce resource commitment, and limit risk exposure. Second, cultural distance may encourage equity modes when firms require stronger control, deeper learning, or more reliable coordination. The choice depends on firm size, industry, strategic objective, resource availability, and the perceived need for local adaptation.

Table 4.6. Effects of Cultural Differences on Equity and Non-Equity Entry Modes

Entry mode category	Effect of cultural differences	Main explanation	Representative studies
Non-equity modes	Cultural distance may increase the likelihood of non-equity modes	Firms reduce resource commitment, maintain flexibility, and limit risk exposure in culturally distant markets	Quer et al. (2007); Majocchi et al. (2013); Xu et al. (2011)
Equity modes	Cultural distance may also increase the likelihood of equity-based modes	Firms need stronger control, deeper learning, and closer coordination in culturally distant markets	Morschett et al. (2008); Pla-Barber et al. (2014); Maekelburger et al. (2012)
Equity joint ventures over contractual alliances	Cultural differences may encourage equity-based cooperation rather than purely contractual arrangements	Equity JVs provide stronger commitment, coordination, and monitoring than contracts	Sengupta & Perry (1997)
Conditional / mixed effects	The effect of cultural distance depends on risk, firm resources, industry, and strategic objectives	Cultural distance may lead to lower commitment when firms seek flexibility, but higher commitment when they need control or learning	Slaiby & Matta (2025); Xu et al. (2011); Pla-Barber et al. (2014)

4.6 Moderating Factors Affecting the Relationship

The reviewed studies show that the relationship between cultural differences and foreign market entry mode choice is rarely straightforward. Although cultural distance is often treated as a direct determinant of entry mode choice, many studies indicate that its effect depends on additional firm-level, country-level, industry-level, and strategic factors. These moderating variables help explain why some studies find that cultural distance increases the likelihood of

joint ventures, while others find that it encourages wholly owned subsidiaries, greenfield investments, acquisitions, or non-equity modes.

One important moderator is **international experience**. Firms with more international experience are generally better able to interpret foreign market conditions, manage cross-cultural differences, and reduce uncertainty. As a result, experienced firms may be less dependent on local partners when entering culturally distant markets. For example, Slangen and Hennart (2008) show that the effect of cultural distance on the preference for greenfield investment becomes weaker when firms have specific experience or when they can manage culturally distant acquisitions more effectively. Similarly, Rienda et al. (2018) find that prior international acquisition experience increases the likelihood that Indian MNCs choose acquisitions even in culturally distant countries. This suggests that experience can reduce the perceived risks of culturally distant entry modes and allow firms to choose higher-control or more complex modes.

Country risk and political risk also moderate the influence of cultural differences. Several studies suggest that firms avoid high-commitment modes when either cultural distance or country risk is high, because both factors increase uncertainty and potential losses. Xu, Hu and Fan (2011), for instance, find that higher cultural distance and higher country risk independently lead Chinese firms to prefer lower-involvement entry modes such as trade or licensing. However, their study also shows an important interaction effect: when both country risk and cultural distance are high, firms become more likely to choose wholly owned subsidiaries. This indicates that firms may choose high-control entry modes in highly uncertain environments in order to centralize decision-making and reduce dependence on local partners.

A similar logic appears in studies focusing on **political risk**. López-Duarte and Vidal-Suárez (2010) show that the effect of cultural distance on entry mode choice depends on political risk and language diversity. Their findings suggest that cultural distance should not be analysed in isolation, because firms evaluate several types of external uncertainty simultaneously. In culturally and politically difficult environments, firms may either reduce commitment through joint ventures or non-equity modes, or increase control through WOS, depending on whether they prioritize risk sharing or control.

Another important moderator is **administrative distance**. Recent studies distinguish between cultural or informal distance and formal institutional or administrative distance. Rienda, Quer and Andreu (2021) show that administrative distance moderates the relationship between cultural distance and establishment mode choice. Their findings indicate that cultural distance alone may reduce the likelihood of acquisition, but high administrative distance can weaken this effect and make acquisitions more likely. This is especially relevant for emerging-market multinationals entering developed countries, where formal institutions may be stronger and more predictable than in the home country. Therefore, formal institutional conditions may change how firms respond to cultural differences.

Firm size also affects the relationship between cultural distance and entry mode choice. Larger firms usually have more financial, managerial, and organizational resources, which can reduce the negative effects of cultural distance. Ramsey, Barakat and Monteiro (2013) show that cultural distance reduces Brazilian MNEs' future preference for acquisitions, but this effect is

weaker for larger firms. This means that small firms are more likely to avoid culturally distant acquisitions, while large firms may be more capable of absorbing risk and managing complex foreign operations.

The reviewed studies also suggest that **industry characteristics** shape the effect of cultural differences. For example, studies on hotels, services, manufacturing, high-technology sectors, and alliances show that cultural distance does not operate in the same way across industries. Pla-Barber, Villar and León-Darder (2014) find that in the hotel industry, high cultural distance can encourage firms to maintain high resource-augmenting entry modes such as joint ventures, acquisitions, or greenfields because firms need local learning and control. In contrast, other studies show that in sectors with high technological intensity, firms may prefer higher-control modes in order to protect proprietary knowledge and avoid opportunistic behavior by local partners. Therefore, the influence of cultural distance depends partly on whether firms need local knowledge, need to protect firm-specific assets, or rely strongly on tacit service routines.

A further moderator is the **strategic motive of the investment**. In particular, strategic asset-seeking investments may change the effect of cultural distance. Yang et al. (2023) show that informal institutional distance, including cultural distance, generally increases the likelihood of joint ventures because local partners provide legitimacy. However, when the investment is strategic asset-seeking, firms are more likely to choose wholly owned subsidiaries even under high formal and informal institutional distance. This is because firms need stronger control to access, protect, and transfer strategic assets such as technology, brands, and knowledge. Thus, strategic motives may override the usual legitimacy logic associated with cultural distance.

Finally, **subsidiary autonomy** is an important firm-level moderator. Slangen and Hennart (2008) show that when MNEs plan to grant more autonomy to the foreign subsidiary, the preference for greenfield entry in culturally distant countries becomes weaker. This is because autonomous subsidiaries require less direct integration with the parent firm and can adapt more easily to the local environment. In such cases, acquisitions may become more attractive despite cultural distance, because the acquired firm's local knowledge and routines can be preserved rather than fully integrated into the parent company.

Overall, the reviewed studies suggest that cultural distance influences entry mode choice through several competing mechanisms. Cultural distance may increase the need for local partners, legitimacy, and market knowledge, which favors joint ventures or other shared-control modes. At the same time, it may increase coordination problems, integration costs, and partner-related uncertainty, which can favor wholly owned subsidiaries or greenfield investments. Moderators such as international experience, political risk, administrative distance, firm size, industry characteristics, strategic asset-seeking motives, and subsidiary autonomy determine which of these mechanisms becomes dominant. Therefore, the effect of cultural differences on entry mode choice is best understood as context-dependent rather than universal.

Table 4.7. Moderating Factors in the Relationship Between Cultural Differences and Entry Mode Choice

Moderator	How it changes the cultural distance–entry mode relationship	Entry mode implication	Representative studies
International experience	Reduces uncertainty and improves the ability to manage culturally distant markets	Makes acquisitions or higher-control modes more feasible	Slangen & Hennart (2008); Rienda et al. (2018)
Country risk	Changes the effect of cultural distance depending on the level of external risk	High cultural distance and high country risk may lead to WOS	Xu et al. (2011)
Political risk	Alters whether firms respond through risk sharing or control	Can encourage JV, WOS, or lower-commitment modes depending on context	López-Duarte & Vidal-Suárez (2010)
Administrative distance	Can weaken the negative effect of cultural distance on acquisitions	May make acquisition more likely despite cultural distance	Rienda et al. (2021)
Firm size	Larger firms have more resources to manage cultural distance	Large firms are less constrained by cultural distance	Ramsey et al. (2013)
Industry characteristics	Effects differ across services, hotels, manufacturing, and high-tech sectors	Entry mode depends on local learning, tacit knowledge, and asset protection needs	Pla-Barber et al. (2014)
Strategic asset seeking	Strategic objectives may override legitimacy concerns	WOS becomes more likely when firms need control over technology, brands, or knowledge	Yang et al. (2023)
Subsidiary autonomy	Reduces the need for strong parent–subsidiary integration	Makes acquisitions more feasible in culturally distant countries	Slangen & Hennart (2008)

5. Discussion

5.1 Discussion of the Main Findings

The aim of this systematic literature review was to examine how cultural differences influence firms' choice of foreign market entry modes. The findings show that cultural differences are an important factor in entry mode decisions, but their influence is not uniform. Instead of leading consistently to one specific entry mode, cultural differences affect entry mode choice through several competing mechanisms, including uncertainty reduction, local legitimacy, partner coordination, control, knowledge transfer, and integration costs.

The strongest evidence appears in studies examining **ownership mode choice**, especially the distinction between **joint ventures** and **wholly owned subsidiaries**. Several studies suggest that cultural distance increases the likelihood of joint ventures. This is because culturally distant markets create uncertainty and make it more difficult for foreign firms to understand local norms, business practices, customers, employees, and institutions. In such situations, a local partner can provide market knowledge, legitimacy, and access to local networks. This explains why some studies find that firms are more likely to share ownership when cultural distance is high (Tahir & Larimo, 2004; Wu et al., 2012; Yang et al., 2023).

However, the review also shows that cultural distance can encourage firms to choose **wholly owned subsidiaries**. This finding appears contradictory at first, but it can be explained by the fact that cooperation with local partners may itself become more difficult in culturally distant environments. Differences in communication styles, managerial expectations, decision-making processes, and organizational routines may increase coordination costs and create partner-related risks. In such contexts, firms may prefer full ownership in order to avoid conflicts with local partners and retain stronger control over foreign operations (Tsang, 2005; Wang & Schaan, 2008).

Therefore, the main finding of this review is that cultural distance creates two opposing pressures. On the one hand, it increases the need for local knowledge and legitimacy, which favors joint ventures and other cooperative modes. On the other hand, it increases coordination and partner-related costs, which may favor wholly owned subsidiaries or other high-control modes. The direction of the effect depends on which of these two mechanisms dominates in a specific context.

The findings also show that cultural differences influence **establishment mode choice**, particularly the decision between greenfield investment and acquisition. In culturally distant markets, acquisitions may become difficult because they require the integration of an existing local organization, including its employees, routines, and management practices. For this reason, firms may prefer greenfield investments because they allow the parent company to build the subsidiary from the beginning and transfer its own routines more directly (Slangen & Hennart, 2008). However, acquisitions may still be preferred when firms need rapid access to local resources, brands, networks, employees, or strategic assets (Rienda et al., 2018; Rienda et al., 2021; Yang et al., 2023).

Another important finding is that cultural differences also influence the broader distinction between **equity and non-equity entry modes**. Some studies suggest that higher cultural distance encourages lower-commitment modes, such as exporting, licensing, or contractual arrangements, because these modes reduce financial exposure and increase flexibility. Other studies show that cultural distance can increase the use of equity modes when firms need stronger control, learning, or coordination in culturally unfamiliar markets (Quer et al., 2007; Majocchi et al., 2013; Morschett et al., 2008; Pla-Barber et al., 2014).

The review further shows that the relationship between cultural distance and entry mode choice is strongly moderated by other factors. International experience, country risk, political risk, administrative distance, firm size, industry characteristics, strategic asset-seeking motives, and subsidiary autonomy all influence how firms respond to cultural differences. For example, prior acquisition experience may make acquisitions more likely even in culturally distant countries, while strategic asset-seeking motives may increase the likelihood of wholly owned subsidiaries because firms need stronger control over knowledge and strategic resources (Rienda et al., 2018; Yang et al., 2023).

Overall, the findings directly answer the research question by showing that cultural differences influence foreign market entry mode choice through context-dependent mechanisms rather than through one universal effect. Cultural distance may lead to joint ventures, wholly owned subsidiaries, greenfield investments, acquisitions, or non-equity modes depending on the firm's resources, strategic goals, experience, host-country conditions, and need for local legitimacy or control.

5.2 Comparison with Previous Literature

The findings of this review are consistent with previous meta-analytic evidence showing that the relationship between cultural distance and entry mode choice is complex and often inconsistent across studies. Tihanyi, Griffith and Russell (2005) found no overall statistically significant relationship between cultural distance and entry mode choice, international diversification, or MNE performance. However, their moderator analysis showed that the effect of cultural distance depends on contextual factors, such as the home country of the multinational enterprise, industry, host-country type, and time period.

The present review supports this conclusion. The reviewed empirical studies do not show one uniform relationship between cultural distance and entry mode choice. Instead, the effect of cultural distance depends on whether the study examines ownership mode, establishment mode, or equity versus non-equity modes. It also depends on whether firms respond to cultural distance by seeking local legitimacy and knowledge or by increasing internal control to avoid partner-related coordination problems.

The findings are also consistent with Wan et al. (2023), who distinguish between **ownership mode choice** and **establishment mode choice** in their meta-analysis. Their findings suggest that cultural distance has a clearer effect on ownership mode choice than on establishment mode choice. This is also reflected in the present review. The most visible effect of cultural differences appears in studies examining joint ventures versus wholly owned subsidiaries, while the evidence for greenfield versus acquisition decisions is more mixed and strongly dependent on

moderators such as firm experience, subsidiary autonomy, administrative distance, and strategic motives.

Zhang et al. (2023) provide another important comparison point. Their meta-analysis focuses on institutional distance and equity-based entry mode. They show that the relationship between institutional distance and entry mode is strongly affected by measurement choices and contextual moderators. This is consistent with the present review because different cultural frameworks, such as Hofstede-based cultural distance, GLOBE, psychic distance, and informal institutional distance, do not always lead to the same conclusions.

The findings are also aligned with Beugelsdijk et al. (2018), who argue that cultural distance affects different stages of internationalization in different ways. Cultural distance may influence where firms invest, how much ownership they take, and how they organize foreign operations. This broader perspective is useful for interpreting the findings of the present review because cultural differences do not influence only one entry mode decision. Instead, they affect multiple dimensions of foreign market entry, including ownership, establishment mode, resource commitment, and control.

Overall, the comparison with previous literature suggests that mixed findings in entry mode research are not random. They can be explained by differences in the type of entry mode examined, the measurement of cultural or institutional distance, firm-level capabilities, host-country conditions, and strategic objectives. This review therefore confirms and extends previous meta-analytic conclusions by showing that cultural distance should be understood as a conditional and context-dependent factor rather than as a simple universal predictor of entry mode choice.

5.3 Theoretical Implications

The findings of this systematic literature review have several theoretical implications for the international business literature. Overall, the review shows that cultural differences influence foreign market entry mode choice, but not through one single mechanism. Instead, cultural distance affects entry mode decisions through a combination of uncertainty, transaction costs, legitimacy concerns, knowledge transfer, learning, and control considerations. This has implications for several theoretical perspectives commonly used in entry mode research, especially Transaction Cost Theory, Institutional Theory, the Eclectic Paradigm, the Resource-Based View, and Organizational Learning Theory.

Transaction Cost Theory

First, the findings contribute to Transaction Cost Theory. Transaction Cost Theory argues that firms choose governance structures that minimize the costs of organizing and controlling economic activities, especially under conditions of uncertainty, bounded rationality, and opportunism (Williamson, 1975, 1985; Anderson & Gatignon, 1986). In the context of foreign market entry, cultural distance increases uncertainty because firms face unfamiliar norms, business practices, communication patterns, and managerial expectations. This can make it more difficult to evaluate partners, monitor operations, transfer knowledge, and coordinate activities across borders.

Many studies in the reviewed sample support this logic by showing that cultural distance can make shared ownership or lower-commitment entry modes more attractive. In culturally distant markets, local partners may help reduce uncertainty by providing local market knowledge, legitimacy, and access to host-country networks. This explains why several studies find that higher cultural distance increases the likelihood of joint ventures rather than wholly owned subsidiaries (Tahir & Larimo, 2004; Wu et al., 2012; Yang et al., 2023).

However, the findings also show that Transaction Cost Theory needs to be applied more carefully. Cultural distance does not only increase the transaction costs of operating alone in a foreign market. It can also increase the transaction costs of cooperating with a local partner. When cultural distance is very high, firms may face communication problems, coordination difficulties, goal conflicts, and partner-related opportunism. In such cases, a joint venture may become costly to manage, and firms may prefer wholly owned subsidiaries in order to maintain stronger control over foreign operations (Tsang, 2005; Wang & Schaan, 2008).

Therefore, this review suggests that Transaction Cost Theory should not assume a simple relationship between cultural distance and low-control entry modes. Instead, cultural distance creates two different types of transaction costs: the costs of entering and operating in an unfamiliar market, and the costs of coordinating with a culturally distant partner. The chosen entry mode depends on which of these costs is perceived as more important in a specific context. This helps explain why cultural distance sometimes leads to joint ventures and sometimes to wholly owned subsidiaries.

Institutional Theory

Second, the findings are highly relevant for Institutional Theory. Institutional Theory emphasizes that firms are embedded in formal and informal institutional environments and must gain legitimacy in order to operate successfully in foreign markets (DiMaggio & Powell, 1983; North, 1990; Scott, 1995; Kostova & Zaheer, 1999). In this review, cultural distance is often treated as part of the informal institutional environment, because it reflects differences in values, norms, expectations, and socially accepted behavior.

The reviewed studies suggest that cultural distance can create legitimacy challenges for foreign firms. When firms enter culturally distant markets, they may be perceived as unfamiliar, foreign, or less legitimate by local stakeholders. In such contexts, joint ventures may help foreign firms gain legitimacy because local partners provide knowledge of informal rules, local expectations, business customs, and social networks. This argument is particularly visible in studies that distinguish between formal and informal institutional distance. For example, Wu et al. (2012) show that greater cultural distance increases the likelihood of joint ventures among Chinese firms, while Yang et al. (2023) find that informal institutional distance increases the probability of joint venture entry because local partners help overcome legitimacy problems.

At the same time, the findings show that formal and informal institutional distance should not be treated as the same concept. Formal institutional distance refers to differences in legal systems, regulations, governance quality, administrative rules, and political structures. Informal institutional distance refers more directly to cultural norms, values, and social expectations. Several studies show that these two types of distance may influence entry mode choice in

different directions. For example, formal institutional distance may encourage firms to choose wholly owned subsidiaries or acquisitions in order to maintain control and reduce partner-related uncertainty, while informal institutional distance may encourage joint ventures because local partners provide legitimacy (Chueke & Borini, 2014; Yang et al., 2023).

This distinction is important because it challenges the idea that “institutional distance” has one uniform effect on entry mode choice. Instead, the findings suggest that institutional distance is multidimensional. Different institutional dimensions may create different pressures, and firms must balance the need for legitimacy against the need for control and efficiency. This provides a more nuanced understanding of how institutions shape entry mode decisions.

Eclectic Paradigm / OLI Framework

Third, the findings also contribute to the Eclectic Paradigm. The OLI framework argues that foreign direct investment decisions depend on ownership advantages, location advantages, and internalization advantages (Dunning, 1977, 1988, 1993). In relation to this framework, cultural differences are mainly connected to location and internalization decisions.

Culturally distant markets may offer attractive location advantages, such as access to new customers, strategic assets, cheaper resources, or growing markets. However, cultural distance also increases the difficulty of operating in the host country. Firms must decide whether they can exploit their ownership advantages alone or whether they need local partners to access complementary knowledge and legitimacy. This directly affects the internalization decision.

The reviewed studies suggest that firms with strong ownership advantages may choose higher-control entry modes in order to protect firm-specific assets, technologies, brands, or knowledge. For example, strategic asset-seeking investments may encourage firms to choose wholly owned subsidiaries, even when cultural or institutional distance is high, because firms need control over strategic resources and knowledge transfer (Yang et al., 2023). In contrast, when local adaptation and host-market knowledge are more important, firms may prefer joint ventures, acquisitions, or other partner-based modes.

Thus, the findings suggest that cultural distance does not act independently within the OLI framework. Instead, it interacts with ownership advantages, location characteristics, and internalization pressures. Firms do not simply respond to cultural distance; they evaluate cultural distance together with their strategic goals, resources, and need for control.

Resource-Based View

Fourth, the findings have implications for the Resource-Based View. The Resource-Based View argues that firms differ in their resources and capabilities, and that these differences influence strategic choices and competitive advantage (Barney, 1991). In this review, firm-specific resources such as international experience, firm size, technological capabilities, and acquisition experience shape how firms respond to cultural distance.

The evidence suggests that firms with stronger capabilities are better able to manage cultural distance. Larger firms and more experienced firms often have more managerial resources, international knowledge, and organizational routines for handling uncertainty. As a result, they may be more willing to choose high-control or complex entry modes in culturally distant

markets. For example, Rienda et al. (2018) show that prior international acquisition experience increases the likelihood that Indian MNCs choose acquisitions in culturally distant countries. Similarly, Ramsey et al. (2013) suggest that larger firms are less constrained by cultural distance when considering future entry mode choices.

From a Resource-Based View perspective, cultural distance is therefore not only an external barrier. It is also a challenge that firms can manage differently depending on their internal resources and capabilities. Firms with stronger resources may be able to internalize operations, acquire foreign firms, or maintain higher ownership levels, while firms with fewer resources may rely more heavily on joint ventures or lower-commitment entry modes.

Organizational Learning Theory

Finally, the findings support an organizational learning perspective. Organizational Learning Theory suggests that firms learn from international experience and gradually improve their ability to operate in foreign markets (Johanson & Vahlne, 1977; Barkema & Vermeulen, 1998). Cultural distance can initially create uncertainty and increase the difficulty of foreign market entry, but firms can reduce these difficulties over time through experience.

Several reviewed studies show that international experience, host-country experience, or acquisition experience moderates the effect of cultural distance on entry mode choice. Slangen and Hennart (2008), for example, show that the preference for greenfield investment in culturally distant countries becomes weaker when firms have specific capabilities or plan to grant subsidiaries more autonomy. Rienda et al. (2018) similarly show that acquisition experience can make acquisitions more likely even in culturally distant markets.

This implies that cultural distance is not a static obstacle. Its effect changes as firms accumulate experience and learn how to manage foreign operations. Therefore, the entry mode decision should be understood not only as a response to external distance, but also as a reflection of what the firm has learned from previous international activities.

Overall, the theoretical implication of this review is that no single theory fully explains the relationship between cultural differences and foreign market entry mode choice. Transaction Cost Theory explains the role of uncertainty and governance costs; Institutional Theory explains legitimacy and formal/informal institutional pressures; the Eclectic Paradigm explains the interaction between ownership, location, and internalization advantages; the Resource-Based View explains firm-specific capabilities; and Organizational Learning Theory explains the role of accumulated experience. Together, these theories provide a more complete explanation of why cultural distance can lead to different entry mode choices across studies.

5.4 Managerial Implications

The findings of this review also offer several practical implications for managers involved in foreign market entry decisions. The most important implication is that cultural distance should not be treated as a simple rule for choosing one specific entry mode. High cultural distance does not automatically mean that a firm should choose a joint venture, nor does it always mean that a firm should avoid acquisitions or wholly owned subsidiaries. Instead, managers need to understand what kind of problem cultural distance creates in a specific host market.

First, managers should evaluate whether cultural distance mainly creates a **knowledge and legitimacy problem** or a **coordination and control problem**. If the main challenge is lack of local market knowledge, unfamiliarity with business practices, weak local legitimacy, or limited access to networks, then a joint venture or another partner-based entry mode may be appropriate. Local partners can help foreign firms understand customer behavior, informal institutions, negotiation styles, local regulations, and business norms. This is especially useful for firms with limited international experience or firms entering culturally unfamiliar emerging markets.

However, if the main challenge is partner coordination, protection of proprietary knowledge, or implementation of a global strategy, then a wholly owned subsidiary may be more appropriate. In culturally distant markets, cooperation with local partners may create additional complexity. Managers may face conflicts over goals, decision-making processes, quality standards, and knowledge sharing. In such situations, full ownership can help firms retain control, protect firm-specific assets, and reduce the risk of partner opportunism (Tsang, 2005; Wang & Schaan, 2008).

Second, managers should consider cultural distance together with other country-level risks. Cultural differences do not operate in isolation. Political risk, country risk, administrative distance, and formal institutional quality can strongly influence whether cultural distance leads firms toward shared control or full control. For example, Xu et al. (2011) show that when cultural distance and country risk are both high, firms may prefer WOS in order to centralize decision-making and reduce dependence on local partners. This means that managers should not evaluate cultural distance separately, but as part of a broader risk profile of the host country.

Third, firm capabilities should be carefully assessed before selecting an entry mode. Larger firms, internationally experienced firms, and firms with prior acquisition experience may have more flexibility in culturally distant markets. They may be able to manage acquisitions, wholly owned subsidiaries, or higher-equity modes more effectively than smaller or less experienced firms. In contrast, firms with limited international experience may benefit from local partners because partners can compensate for missing knowledge and reduce uncertainty (Slangen & Hennart, 2008; Ramsey et al., 2013; Rienda et al., 2018).

Fourth, managers should align the entry mode with the strategic objective of the foreign investment. If the objective is market access, local adaptation, or legitimacy, a joint venture or acquisition may provide access to local resources and networks. If the objective is to protect technology, acquire strategic assets, or transfer knowledge back to the parent company, a wholly owned subsidiary may be more suitable. Yang et al. (2023) show that strategic asset-seeking investments often favor WOS even under high institutional and cultural distance, because firms need control over strategic resources and knowledge flows.

Fifth, managers should distinguish between ownership mode and establishment mode. The choice between JV and WOS is not the same as the choice between greenfield investment and acquisition. Cultural distance may affect these two decisions differently. For example, cultural distance may encourage greenfield investment because it avoids the integration problems associated with acquiring a local firm (Slangen & Hennart, 2008). At the same time, cultural distance may encourage joint ventures when firms need local legitimacy and knowledge.

Managers should therefore evaluate ownership and establishment mode as separate but connected decisions.

Sixth, managers should pay attention to subsidiary autonomy. In culturally distant markets, granting more autonomy to the foreign subsidiary may reduce integration pressure and allow the subsidiary to adapt to local conditions. This can make acquisitions more manageable because the acquired firm's local routines and knowledge do not need to be fully replaced by parent-company practices. Slangen and Hennart (2008) show that subsidiary autonomy can weaken the preference for greenfield entry in culturally distant countries.

Finally, managers should recognize that cultural distance can be learned and managed over time. Firms should systematically build international experience, document lessons from prior entries, develop cross-cultural management capabilities, and invest in local knowledge. Cultural distance should not only be seen as a barrier, but also as a managerial challenge that can be reduced through learning, preparation, and experience.

6. Limitations and Future Research

Like every systematic literature review, this thesis has several limitations that should be considered when interpreting the findings. Although the review followed a transparent and structured selection process, the results are shaped by the methodological choices made during the search, screening, coding, and synthesis stages. Snyder (2019) emphasizes that literature reviews must clearly report their methodological boundaries because the quality and trustworthiness of a review depend strongly on how the literature was identified, selected, analysed, and reported.

One limitation concerns the **database selection**. The literature search was conducted only in **Scopus** and **Web of Science**. These two databases are widely used in systematic literature reviews and provide broad coverage of peer-reviewed business and management research. However, relying only on these two databases may have excluded relevant articles indexed in other academic databases such as EBSCO, ProQuest, ScienceDirect, JSTOR, or Google Scholar. Kraus et al. (2020) recommend using more than one academic database, which was done in this thesis, but they also note that the choice of databases influences the final sample. Therefore, future research could broaden the search strategy by including additional databases.

A second limitation relates to the **language restriction**. This review included only studies published in **English**. This decision was made to ensure consistency in screening, coding, and interpretation. However, it may have excluded relevant studies published in other languages. This is particularly relevant because the topic of cultural differences and market entry modes is international by nature, and studies published in languages such as German, French, Spanish, Chinese, or Japanese may contain relevant empirical evidence. Future reviews could include multilingual search strategies or compare English-language and non-English-language research.

A third limitation is the restriction to the **Business / Management** subject area. This focus was appropriate because the research question is situated in international business and entry mode research. However, cultural differences and foreign market entry are also discussed in related fields such as economics, sociology, psychology, political science, and regional studies. By limiting the review to business and management research, this thesis may have excluded interdisciplinary studies that could offer additional explanations of cultural distance, institutional distance, and internationalization.

A fourth limitation concerns the **document type**. The database search was limited to journal articles and reviews, while conference papers, working papers, book chapters, dissertations, and grey literature were excluded. This decision is consistent with Kraus et al. (2020), who argue that peer-reviewed journal articles are usually the most accepted academic sources for systematic literature reviews because they have passed an academic review process. However, excluding grey literature and books may have reduced the breadth of the review. Future studies could examine whether including book chapters, doctoral theses, or conference proceedings changes the overall interpretation of the field.

A fifth limitation is related to the **search terms and search fields**. The search strategy focused on terms such as cultural distance, cultural differences, Hofstede, GLOBE, entry mode, foreign market entry, joint venture, wholly owned subsidiary, greenfield, and acquisition. Although these terms were directly linked to the research question, some relevant studies may use different terminology, such as socio-cultural distance, institutional embeddedness, liability of foreignness, cross-cultural uncertainty, or foreign ownership strategy. In addition, the search was conducted in title, abstract, and keywords. Studies that discuss cultural differences and entry mode choice only in the main text may therefore not have been captured.

A sixth limitation concerns the **qualitative synthesis approach**. This thesis did not conduct a statistical meta-analysis. Instead, it used a qualitative thematic synthesis of the 58 empirical studies. This approach was appropriate because the included studies differ substantially in terms of research design, dependent variables, cultural frameworks, samples, and methods. However, a qualitative synthesis cannot estimate an overall statistical effect size. Future research could conduct a meta-analysis on a more narrowly defined subset of studies, for example studies focusing only on **JV versus WOS** or only on **Greenfield versus Acquisition**.

Another limitation concerns the **coding process**. The included studies were manually coded in an Excel-based coding framework. This allowed detailed interpretation of each study, but manual coding also involves judgement. Even though the coding framework was applied consistently, some classification decisions required interpretation, especially when studies used different terminology for similar entry modes or cultural constructs. Snyder (2019) notes that data abstraction and analysis should be clearly documented in literature reviews to allow readers to evaluate the review's quality. Future reviews could improve reliability by using multiple independent coders and reporting intercoder agreement.

Finally, the findings of this review are also limited by the characteristics of the underlying literature. Many of the included studies rely on **Hofstede-based cultural distance**, especially the Kogut and Singh index. Although this approach is widely used, it may oversimplify cultural differences by reducing culture to an aggregate country-level distance score. Several studies

also do not analyse individual cultural dimensions separately. As a result, this review can say more about the general effect of cultural distance than about the specific influence of individual dimensions such as uncertainty avoidance, individualism, power distance, masculinity, or long-term orientation.

Future Research

Future research should first examine different entry mode categories more separately. The reviewed literature shows that cultural differences may influence **ownership mode choice**, **establishment mode choice**, and **equity versus non-equity mode choice** in different ways. Therefore, future studies should avoid treating entry mode as one broad category and should distinguish more clearly between **JV versus WOS**, **Greenfield versus Acquisition**, **Equity versus Non-equity**, and **ownership level or equity stake**. This distinction is important because studies on ownership mode often produce different conclusions from studies on establishment mode (Slangen & Hennart, 2008; Wang & Schaan, 2008; Wan et al., 2023).

Second, future research should move beyond aggregate cultural distance measures. Many studies in the reviewed sample rely on Hofstede-based cultural distance, especially the Kogut and Singh index. Although this approach is widely used, it may hide the specific effects of individual cultural dimensions. Future studies should therefore examine whether dimensions such as **uncertainty avoidance**, **individualism**, **power distance**, **masculinity**, and **long-term orientation** influence entry mode choice differently. This would help clarify whether cultural distance works as a general distance construct or whether specific cultural dimensions are more important for particular entry modes (López-Duarte et al., 2015; Martínez-Avella et al., 2022).

Third, more research is needed on alternative cultural frameworks. Future studies could compare Hofstede, GLOBE, Schwartz, psychic distance, and informal institutional distance more systematically. This is important because different cultural frameworks may capture different aspects of cross-national differences and may therefore lead to different conclusions. Studies that compare alternative cultural measures or distinguish between values and practices can provide a more nuanced understanding of how culture affects entry mode choice (Drogendijk & Slangen, 2006; Ramsey et al., 2013; Chueke & Borini, 2014).

Fourth, future studies should pay more attention to moderating factors. The findings of this review show that cultural distance does not have one universal effect. Its impact depends on factors such as international experience, country risk, political risk, administrative distance, firm size, industry characteristics, subsidiary autonomy, and strategic asset-seeking motives. Future research should therefore develop more context-sensitive models that explain when cultural distance leads to joint ventures, when it leads to wholly owned subsidiaries, and when it affects greenfield or acquisition decisions (Xu et al., 2011; Ramsey et al., 2013; Rienda et al., 2018; Rienda et al., 2021; Yang et al., 2023).

Fifth, future research should further examine emerging-market multinational enterprises. Much of the traditional entry mode literature is based on firms from developed economies. However, studies on Chinese, Indian, Brazilian, and other emerging-market firms suggest that these firms may respond differently to cultural and institutional distance, especially when they pursue strategic assets, technologies, brands, or knowledge abroad. Future research should therefore

compare developed-market and emerging-market firms more explicitly (Wu et al., 2012; Rienda et al., 2018; Yang et al., 2023).

Sixth, future research should use more longitudinal research designs. Many studies rely on cross-sectional data, which makes it difficult to analyse how firms' responses to cultural distance change over time. Longitudinal studies could show whether firms become more willing to use higher-control or more complex entry modes as they accumulate international experience. This would be especially useful for understanding the role of learning, acquisition experience, and subsidiary autonomy in culturally distant markets (Slangen & Hennart, 2008; Rienda et al., 2018; Yang et al., 2023).

Finally, future research should further explore the interaction between **formal institutional distance** and **informal cultural distance**. Several recent studies show that formal and informal distance may influence entry mode choice in different directions. Formal institutional distance may increase the need for control, while informal cultural distance may increase the need for local legitimacy and cooperation. Future studies should therefore avoid treating institutional distance as one single construct and should analyse legal, political, administrative, cultural, and social differences separately (Chueke & Borini, 2014; Wu et al., 2012; Yang et al., 2023; Zhang et al., 2023).

Overall, future research should move toward more nuanced, multidimensional, and context-sensitive explanations. Cultural differences clearly matter for foreign market entry mode choice, but their effect depends on the type of entry mode, the cultural framework used, firm capabilities, host-country conditions, and strategic objectives. Future studies should therefore focus less on whether cultural distance matters and more on **when, how, and under which conditions** it matters.

7. Conclusion

This thesis examined how cultural differences influence firms' choice of foreign market entry modes. The study was based on a systematic literature review of empirical research published between 1995 and 2025. Using Scopus and Web of Science as the main databases, the review identified and synthesized 58 empirical studies that directly examine the relationship between cultural differences and foreign market entry mode choice. The main purpose of the thesis was to consolidate a fragmented body of literature and to provide a clearer understanding of why previous studies have produced different and sometimes contradictory findings.

The research question guiding this thesis was:

How do cultural differences influence firms' choice of foreign market entry modes?

The answer to this research question is that cultural differences do influence foreign market entry mode choice, but not in one single or universal direction. The findings show that cultural distance can lead firms toward different entry modes depending on the type of entry mode decision, the theoretical mechanism emphasized, the cultural framework used, and the

contextual conditions of the firm and host country. Cultural differences may encourage joint ventures when firms need local knowledge, legitimacy, and support in unfamiliar markets. At the same time, cultural differences may also encourage wholly owned subsidiaries or greenfield investments when firms want to avoid partner-related coordination problems, protect firm-specific assets, and maintain stronger control over foreign operations.

One of the most important findings of this thesis is that the strongest evidence appears in studies of **ownership mode choice**, especially the choice between **joint ventures and wholly owned subsidiaries**. Many studies suggest that higher cultural distance increases the likelihood of joint ventures because local partners help foreign firms understand local norms, institutions, customers, and business practices. However, other studies show the opposite effect, suggesting that firms may prefer wholly owned subsidiaries in culturally distant markets to avoid conflict, opportunism, and coordination problems with local partners. Therefore, cultural distance creates two competing pressures: the need for local legitimacy and knowledge on the one hand, and the need for internal control on the other.

The review also shows that cultural differences influence **establishment mode choice**, particularly the choice between **greenfield investment and acquisition**. In some cases, cultural distance increases the attractiveness of greenfield investment because firms can build the foreign subsidiary from the beginning and avoid the difficulties of integrating an existing local organization. However, acquisitions may still be attractive when firms need rapid access to local knowledge, networks, employees, brands, or strategic assets. This means that cultural distance does not automatically lead firms to avoid acquisitions; instead, it changes the perceived costs and benefits of post-entry integration.

Another important result concerns the distinction between **equity and non-equity entry modes**. Some studies show that cultural distance may push firms toward lower-commitment modes such as exporting, licensing, franchising, or contractual agreements, because these modes reduce risk and resource commitment. Other studies show that cultural distance may increase the likelihood of equity-based modes when firms require stronger control, closer coordination, or deeper learning in the host market. This again confirms that the effect of cultural distance is conditional rather than universal.

The thesis also found that the way culture is measured strongly shapes the conclusions of entry mode research. The most frequently used cultural framework is **Hofstede-based cultural distance**, especially the **Kogut and Singh index**. However, the literature also includes studies using GLOBE, psychic distance, informal institutional distance and Schwartz. These alternative frameworks provide more nuanced explanations because they capture different dimensions of cultural and institutional difference. A major conclusion of this review is therefore that cultural differences should not be treated as a single, simple variable. Different cultural frameworks may emphasize different aspects of distance and may lead to different interpretations of entry mode choice.

The review further shows that several moderating factors influence the relationship between cultural differences and entry mode choice. These include international experience, country risk, political risk, administrative distance, firm size, industry characteristics, strategic asset-seeking motives, and subsidiary autonomy. These moderators help explain why some firms

choose joint ventures in culturally distant markets, while others choose wholly owned subsidiaries, greenfield investments, acquisitions, or non-equity modes. Cultural distance therefore matters, but its effect depends on the firm's capabilities, the host-country environment, and the strategic objective of the foreign investment.

This thesis contributes to international business research in three main ways. First, it provides a systematic synthesis of empirical studies on cultural differences and foreign market entry mode choice. Instead of focusing on one specific entry mode or one cultural framework, it brings together different strands of research and organizes them into a coherent structure. Second, it clarifies why previous findings are inconsistent. The review shows that mixed findings are not random, but can be explained by differences in entry mode category, cultural measurement, theoretical perspective, and contextual moderators. Third, the thesis contributes by showing that cultural distance should be understood as a context-dependent factor that influences entry mode decisions through several competing mechanisms, especially legitimacy, uncertainty, control, coordination, learning, and transaction costs.

From a managerial perspective, the findings suggest that managers should not use cultural distance as a simple decision rule. High cultural distance does not automatically mean that a joint venture is the best entry mode, nor does it automatically mean that a wholly owned subsidiary or acquisition should be avoided. Instead, managers should analyse what kind of challenge cultural distance creates in a specific host market. If the main challenge is local knowledge and legitimacy, a partner-based mode may be appropriate. If the main challenge is control, knowledge protection, or strategic asset transfer, a high-control mode may be more suitable.

Overall, this thesis shows that cultural differences remain highly relevant for foreign market entry mode choice. However, their effect is complex and depends on multiple conditions. The main conclusion is that cultural differences influence entry mode choice not through one universal mechanism, but through the balance between local legitimacy, uncertainty reduction, control, learning, integration costs, and transaction cost considerations. Future research should therefore continue to examine when, how, and under which conditions cultural differences lead firms to choose different foreign market entry modes.

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Appendices

Appendix 1: List of the 58 Included Studies

No.	Title	Author(s)	Year
1	Foreign market entry mode choice of hotel companies: Determining factors	Andreu, Claver & Quer	2017
2	Wholly owned subsidiary versus technology licensing in the worldwide chemical industry	Arora & Fosfuri	2000
3	Acquisition Entry Strategy of Nordic Multinational Enterprises in China: An Analysis of Key Determinants	Arslan & Wang	2015
4	What differences in the cultural backgrounds of partners are detrimental for international joint ventures?	Barkema & Vermeulen	1997
5	Ownership structures of norwegian foreign subsidiaries in manufacturing	Benito	1996
6	Choice of foreign market entry mode in service firms	Blomstermo, Sharma & Sallis	2006
7	Taking chances? The effect of CEO risk propensity on firms' risky internationalization decisions	Boustanifar, Zajac & Zilja	2022
8	How cultural distance influences entry mode choice: The contingent role of host country's governance quality	Chang, Kao, Kuo & Chiu	2012
9	Understanding establishment mode choice of foreign manufacturing firms in Ghana	Dadzie & Owusu	2015
10	How Do Family SMEs Control Their Investments Abroad? The Role of Distance and Family Control	Del Bosco & Bettinelli	2020
11	Institutional and Transaction Cost Influences on Partnership Structure of Foreign Affiliates	Demirbag, Tatoglu & Glaister	2010
12	Institutional and transaction cost influences on MNEs' ownership strategies of their affiliates: Evidence from an emerging market	Demirbag, Glaister & Tatoglu	2007
13	Factors affecting perceptions of the choice between acquisition and greenfield entry: The case of western FDI in an emerging market	Demirbag, Tatoglu & Glaister	2008
14	Equity-based entry modes of emerging country multinationals: Lessons from Turkey	Demirbag, Tatoglu & Glaister	2009
15	Disentangling the Roles of International Experience and Distance in Establishment Mode Choice	Dow & Larimo	2011

16	Hofstede, Schwartz, or managerial perceptions? The effects of different cultural distance measures on establishment mode choices by multinational enterprises	Drogendijk & Slangen	2006
17	Cultural Distance and Corporate Internationalization: Evidence from Emerging Economies	Elmoez, Zorgati & Alessa	2021
18	Culture and foreign companies' choice of entry mode: The case of the Singapore building and construction industry	Fisher & Ranasinghe	2001
19	Control Modes in International Service Operations – The Propensity to Franchise	Fladmoe-Lindquist & Jacque	1995
20	Choice of entry mode into the internationalisation process by dominant Spanish hotel chains	García de Soto-Camacho & Álvarez-Torrescusa	2018
21	Cultural distance and entry modes: implications for global expansion strategy	Gollnhofer & Turkina	2015
22	Cultural Distance and Entry Modes in Emerging Markets: Empirical Evidence in Vietnam	Nguyen Minh Ha, Quan Minh Quoc Binh & Pham Phi Dang	2020
23	The impact of culture on the strategy of multinational enterprises: Does national origin affect ownership decisions?	Jean-François Hennart & Jorma Larimo	1998
24	Factors influencing the foreign entry mode of Asian and Latin-American banks	Hsieh, Shen & Lee	2010
25	Emerging economies firms' expansion in the European Union: acquisitions vs. alliances	Ang & Michailova	2007
26	An assessment of alternative empirical measures of cultural distance: Evidence from the Republic of Korea	Kim & Gray	2009
27	The influence of CEO overconfidence on ownership choice in foreign market entry decisions	Lai, Lin & Chen	2017
28	How do linking, leveraging and learning capabilities influence the entry mode choice for multinational firms from emerging markets?	Li, Guo & Xu	2017
29	Joint (Ad)ventures-Family firms' international entry mode choices for emerging markets	Loehde, Calabrò, Torchia & Kraus	2020
30	Impact of cultural positions on FDI's entry mode	López-Duarte, Vidal-Suárez & González-Díaz	2015

31	External uncertainty and entry mode choice: Cultural distance, political risk and language diversity	López-Duarte & Vidal-Suárez	2010
32	Determinants of outward foreign direct investment entry mode choice: evidence from Chinese-listed companies	Jie Lv, Ying Xiong & Yingjie Zheng	2022
33	Family business legitimacy and foreign subsidiary establishment mode choice: An institutional and mixed gamble approach	Jacqueline Lyons, Palitha Konara & Vikrant Shirodkar	2025
34	Asset specificity and foreign market entry mode choice of small and medium-sized enterprises: The moderating influence of knowledge safeguards and institutional safeguards	Birger Maekelburger, Christian Schwens & Ruediger Kabst	2012
35	Joint ventures or non-equity alliances? Evidence from Italian firms	Antonio Majocchi, Ulrike Mayrhofer & Joaquin Camps	2013
36	Geographic distance as a moderator of curvilinear relationship between cultural distance and shared ownership	Shavin Malhotra	2012
37	Cross-national uncertainty and level of control in cross-border acquisitions: A comparison of Latin American and U.S. multinationals	Shavin Malhotra, Xiaohua Lin & Carlyle Farrell	2016
38	Acquisition versus greenfield in Colombia: Reviewing the effect of cultural distance and vicarious experience	Mario Martínez-Avella, Angela Alarcón-León & Giovanni Hernandez-Salazar	2022
39	The influence of national origin and uncertainty on the choice between cooperation and merger-acquisition: An analysis of French and German firms	Ulrike Mayrhofer	2004
40	How does distance affect market entry mode choice? Evidence from French companies	Emna Moalla & Ulrike Mayrhofer	2020
41	Entry modes for manufacturers' international after-sales service: Analysis of transaction-specific, firm-specific and country-specific determinants	Dirk Morschett, Hanna Schramm-Klein & Bernhard Swoboda	2008
42	Augmenting versus exploiting entry modes in soft services: Reconsidering the role of experiential knowledge	José Pla-Barber, Cristina Villar & Fidel León-Darder	2014
43	Foreign market entry mode in the hotel industry: The impact of country- and firm-specific factors	Diego Quer, Enrique Claver & Rosario Andreu	2007
44	Chinese multinationals and entry mode choice: Institutional, transaction and firm-specific factors	Diego Quer, Enrique Claver & Laura Rienda	2012

45	The effects of geographic distance on the foreign acquisition activity of U.S. firms	Roberto Ragozzino	2009
46	Distance factors and establishment mode choice of emerging-market multinationals: The moderating effect of administrative distance	Laura Rienda, Diego Quer, Rosario Andreu	2021
47	Institutional distance, establishment mode choice and international experience: the case of Indian MNCs	Laura Rienda, Enrique Claver, Diego Quer	2018
48	Some Antecedents of Global Strategic Alliance Formation	Sanjit Sengupta, Monica Perry	1997
49	The Impact of Cultural Distance and Political Risk on SMEs' Internationalization Strategies: The Case of SMEs in the UAE and Lebanon	Walid Slaiby, Fadia Matta	2025
50	Do multinationals really prefer to enter culturally distant countries through greenfields rather than through acquisitions? the role of parent experience and subsidiary autonomy	Arjen H. L. Slangen, Jean-François Hennart	2008
51	Understanding the ownership structure choices of Finnish firms in Asian countries	Rizwan Tahir, Jorma Larimo	2004
52	Influences on foreign ownership level and entry mode choice in Vietnam	Eric W. K. Tsang	2005
53	Institutional distance and entry mode choice by Brazilian firms: An institutional perspective	Gabriel Vouga Chueke, Felipe Mendes Borini	2014
54	How much distance do we need? Revisiting the "national cultural distance paradox"	Huanglin Wang, Jean-Louis Schaan	2008
55	Impact of the institutional environment on the choice of entry mode: Evidence from Chinese enterprises	Xianming Wu, Xueyuan Liu, Qihai Huang	2012
56	Entry mode choice of Chinese enterprises: The impacts of country risk, cultural distance and their interactions	Yuehua Xu, Songhua Hu, Xu'ang Fan	2011
57	Strategic asset-seeking foreign direct investments by emerging market firms: the role of institutional distance	Yang Yang, Jia Xu, Jonathan P. Allen, Xiaohua Yang	2023
58	Cultural Distance and Future Entry Mode Choice of Brazilian MNEs	Ramsey, Barakat & Monteiro	2013