Revisit the CD Paradox in Entry Model Choice: Toward the Perspective of Strategic Fit

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The effect of cultural distance (CD) on the entry mode choice (EMC) has been intensively studied but the empirical results are mixed. This study adopts the strategic fit perspective to examine how firms' strategic motives and technological ownerships may influence the EMC in face of different cultural distances. Analyzing Taiwanese outward FDI cases from 2004 to 2007, this study found that firms entering the culture-distant countries would choose the wholly-owned subsidiary (WOS) mode when emphasizing more about the protection of technological competence than market expansion, or else would choose the joint-venture (JV) mode when the market expansion is prioritized.

INTRODUCTION

The entry mode choice (EMC) has been widely studied for decades (Morschett, Schramm-Klein, and Swoboda 2010) because it affects the performances of internationalization (Brouthers 2002). Bundles of exogenous and endogenous determinants of the EMC have been examined (Morschett et al. 2010), among which the cultural distance (CD) has drawn the heavy attentions (e.g., Anand and Delios 2002; Erramilli 1991; Erramilli and Rao 1993; Hennart and Reddy 1997; Kogut and Singh 1988; Tihanyi, Griffith, and Russell 2005). CD represents the external uncertainties and firms tend to reduce such uncertainties by choosing appropriate EMCs, e.g., wholly-owned subsidiary (WOS) or joint venture (JV).

Prior research on the CD-EMC relationship has examined the direct effect of CD on EMC based on different theoretical approaches, such as the internalization theory or the transaction cost economics (e.g., Brouthers, Brouthers, and Werner 2003), the resource-based view (e.g., Meyer and Estrin 2001) and the institutional theory (e.g., Brouthers and Brouthers 2001). However, empirical results are mixed; "CD Paradox" (Brouthers and Brouthers 2001) is thereof coined. Brouthers and Brouthers (2001) and López-Duarte and Vidal-Suárez (2010) attempt to disentangle such a paradox by examining another contextual effect on the CD-EMC relationship. The former research takes the investment risk of the host country into account whereas the latter examines how the political risk and the linguistic distance moderate the CD-EMC relationship. Both of them are from the contingent perspective of external environment; however, firm-level contingencies are still barely reviewed, which we suggest is very important and cannot be ignored while tackling the CD paradox.

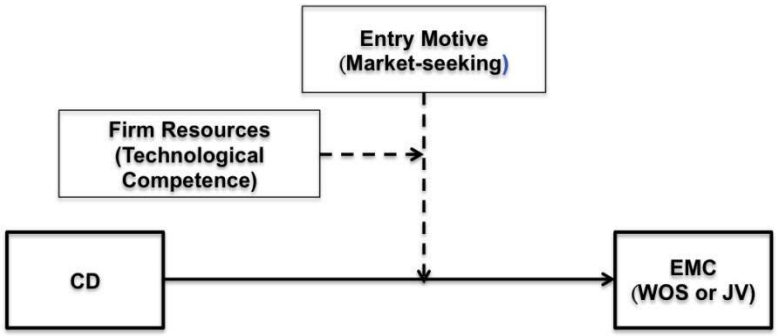
Firm-level factors, specifically like firms' strategic motives of foreign entry and their strategic resources, i.e., technological competence, are crucial to EMC because the former, namely the country-specific strategy (Gil, Nakos, Brouthers, and Brouthers 2006), primarily decides WHERE is suitable for a firm to enter. Besides, both of firms' entry motives and strategic resources will influence heavily HOW to conduct foreign entries. For example, Shi, Ho, and Siu (2001), Gil, et al., (2006), and Brouthers,

Brouthers, and Werner (2008) examine how the strategic entry motive may affect the EMC of a firm by holding CD constant. Erramilli, Agarwal, and Kim (1997) examine how a firm's technological intensity may affect its EMC under different CDs and the development levels of host countries.

From the perspective of strategic fit, a firm may perform better if its strategy can align well with the external environments (Venkatraman and Prescott 1990). Hence, when a firm decides to undertake the foreign entry, its management should make efforts to fit their strategies well in the target environment by taking the firm-level contingencies into simultaneous account. Different from prior research that examines the contextual effects onto the CD-EMC relationship (e.g., Brouthers and Brouthers 2001; López-Duarte and Vidal-Suárez 2010), our study adopts the perspective of strategic fit to tackle the CD Paradox by taking the firm-level factors and CD into simultaneous consideration (Figure 1). We suggest that different strategic motives of entry and strategic resources will moderate the CD-EMC relationship, thereof making such a relationship developed in an unambiguous direction. Although some prior research has examined how firm-level factors may affect the EMC (e.g., Erramilli et al. 1997; Gils et al. 2006; Shi et al. 2001), most of them examine the direct effects of those factors on the EMC and treat CD as one of the explanatory variable or a fixed context (e.g., Shi et al. 2001; Gils et al. 2006), thus being unable to explicate the roles of those firm-level factors played in the CD-EMC relationship.

A variety of entry modes have been categorized, e.g., joint venture, wholly-owned subsidiary by greenfield or acquisition, and alliance through contracting or franchising (i.e., Erramilli and Rao 1993; Kogut and Singh 1988; Brouthers and Hennart 2007). This study follows Brouthers and Hennart (2007) to focus on WOS and JV of the equity-based entry mode to examine the moderating effect of firm-level factors on the CD-EMC relationship. When firms involves themselves deeply in the foreign entry through equity investment, they may be more cautious for their strategic decisions (e.g., EMC) by considering their strategic motive and resource ownership together with the external environment to enhance the strategic fit.

FIGURE 1
RESEARCH MODEL



LITERATURE REVIEW AND HYPOTHESES

Cultural Distance (CD)

CD in the international business research depicts the differences in cultures between home and host countries. Long CD represents different social norms, customs, and behavioral rationality from those in home countries, thus increasing uncertainties and risks of firms' foreign operations. Long CD also increases the difficulties for firms to transfer their core competencies to host countries due to some tacit characteristics of the firm-specific resources or interfirm opportunism. Hence, costs of foreign entry may increase and negatively affect performances of firm s' internationalization when CD enlarges (Bartlett and Ghoshal 1999; Palich and Gomez-Mejia 1999).

There are two main research streams for studying the CD-EMC relationship. One is from the perspective of risk reduction. It argues that firms may reduce resource commitments to culture-distant countries, thus preferring JV mode for foreign entry that helps firms access local resources for growth (i.e., Chang and Rosenzweig 2001; Yiu and Makino 2002; Tatoglu, Glaister, and Erdal 2003; Pak and Park 2004; Quer, Claver, and Andreu 2007). The other stream is from the perspective of control. It contends that longer CD leads to higher transactional costs due to unfamiliarity in local environments or opportunism; thus, firms prefer WOS mode for foreign entry that smoothens the transfer and exploitation of firm-specific resources (e.g., Fisher & Ranasinghe 2001). Generally, the two streams deliver inconsistent results on the CD-EMC relationship.

The majority of extant research uses Hofstede's six cultural dimensions (Hofstede 1980; Hofstede and Hofstede 2001) and Kogut and Singh's index (Kogut and Singh 1988) to measure CD. In the recent years, Schwartz's approach (Schwartz 1994, 1999) and GLOBE approach (House, Hanges, Javidan, Dorfman, and Gupta 2004) are also used which are more societal basis rather then country basis like Hofstede's. As Brouthers and Brouthers (2001) and López-Duarte and Vidal-Suárez (2010) adopt Hofstede's approach in their research, we thereof take the same approach as theirs in attempt to solve the CD Paradox.

Strategic Motive of Foreign Entry

The purpose of foreign entry into any host country is to find new markets for selling products/ services and/or obtain resources like low-cost labors, natural assets, strategic assets, or trade quotas (Dunning 1981). Erramilli and Rao (1990) suggest market-seeking and client-following are two major strategic motives for foreign entry; the former is like the case that Apple enters China in seek of larger and fast-growing market for smart phones whereas the latter is like most of OEM/ODM manufacturers of Taiwan who establish production sites in China or elsewhere to support their customers locally. The market-seeking motive implies the activeness in the location choice of entry while the client-following implies the passiveness. Shi et al. (2001) claim that seeking for low-cost labors and for markets are the major motives to affect the EMC. Gil et al. (2006) examine the direct relationship between EMC and each of the three motives of entry: market-seeking, resource-seeking, and client-following, but CD is not considered. Besides rational concerns of transactional costs or institutional influence, research examining the strategic motives of foreign entry suggests that entry motives have significant influences on firms' optimal organizational structures in host countries, hereby determining EMC (Brouthers and Hennart 2007).

In sum, firms seek to survive or grow by foreign entry due to the saturation or deterioration of home markets. Based on extant literature, this study broadly classifies firms' foreign entry motives into market-seeking and non-market-seeking to examine how the strategic motives may affect the CD-EMC relationship. Market-seeking motive is more active for expanding businesses, thereof forcing firms to aggressively look for local knowledge and business networks in host countries to sell products/services. Non-market-seeking motive includes the resource-seeking and the client-following, which is relatively passive for firms' foreign entry. Firms with non-market-seeking motive aim to improve efficiency in cost structures, current operation, or production to better serve firms' existing customers.

Technological Competence

The proposition of the growth prerequisite of MNEs is that firms should have some advantages that afford them in an unfamiliar host country to compete successfully against domestic incumbents who have the advantages of local knowledge and nationality. Penrose (1959) suggests that it is more difficult for firms to move into new areas of specialization if they have no technological strength but only rely on a dominant position in some important markets. She claims that "when the technology of a firm is standardized and fairly simple, the productive services available within the firm are unlikely to generate many opportunities for expansion into areas where superior or unusual technical capacity is required". Bradley and Gannon (2000) argue that the propensity is higher for a firm to choose a "high-control mode" when this firm's products are with greater high-tech content. Sedoglavich (2012) posits that high-tech firms face a problem of protecting its knowledge advantage from opportunistic behavior by competitors in both home and host countries.

Firms who have inimitable or hard-to-replicate technological competence may obtain sustainable competitiveness. When firms with technological competence seek for foreign entry, they may care more about how to have such competence being well protected and effectively transferred to host countries without being expropriated. In such a case, firms are likely to choose a high-control mode of entry.

In order to examine how strategic motives and technological competence may moderate the CD-EMC relationship, this study subgroups firms based on four contingencies: (1) firms with non-market-seeking motive and technological competence; (2) firms with market-seeking motive but without technological competence; (3) firms with market-seeking motive and technological competence; (4) firms with non-market-seeking motive but without technological competence. We review the extant literature for the four contingencies and develop hypotheses about the moderating effect onto the CD-EMC relationship accordingly.

Non-market-seeking Motive with Technological Competence

Firms' resources, e.g., technologies or production know-how, with valuable, rare, inimitable, and non-substitutable (VRIN) characteristics can generate sustainable competitiveness, thereafter enhancing firms' performance (Barney 1991). Most of the VRIN resources are intangible and tacit, which may be embedded in firms' routines (Nelson and Winter 1982). Successful replication of firms' routines leads to firms' expansion, which may be deeply affected by the absorptive capacities of firms' affiliates (i.e., wholly-owned subsidiaries or JV partners). Firms' absorptive capacity for local knowledge in host countries is likely to be lower because of different cultures, thus causing the exploitation of firm-specific advantages to be less effective (Morschett et al. 2010). Long cultural distance increases information asymmetry, complexity and uncertainty in the interfirm collaboration due to different norms and cultural cognitions (Brouthers and Hennart 2007), thereof leading to higher costs of information and monitoring and reducing the effectiveness and efficiency of cooperation (Tihanyi et al. 2005; Morschett et al. 2010). As such, firms may prefer to exploit their firm-specific advantages in a culturally distant country via an internalized manner with higher control (Kogut and Singh 1988; Kogut and Zander 1993).

Internalization may permit to transfer other company-specific advantages (e.g., reputation and tacit knowledge) more effectively; this helps to compensate for the liability of foreignness that results from cultural dissimilarity (Morschett et al. 2010). Bradley and Gannon (2000) claim in their research of pharmaceutical industry that firms with technically sophisticated products are more likely to choose high-control mode because those firms spend big money in R&D to develop new drugs and must protect their investment, particularly in overseas markets. The adoption of high-control mode, which minimizes transaction costs, ensures that those firms obtain acceptable returns on their investment in manufacturing and marketing.

Therefore, when a technologically competitive firm seeks for foreign entry to a culturally distant country but has the relatively passive non-market-seeking motive, instead of searching for specific local knowledge or business opportunities, it cares more about the smooth replication and effective transfer of its routines and technologies, and more about the protection of its own technological competence from being spilled over or expropriated due to potential opportunism. Besides, when such a firm seeks for foreign entry due to the requests of existing customers for local delivery and services, entry via JV is hardly feasible because a new vender qualification process needs to be conduct that is time-consuming and costly. As such, the more culturally distant the target host country is, the more propensity such a firm will tend to choose the entry mode of higher control.

> *H1: When cultural distance between home and host countries increases, the non-market-seeking firm with technological competence is likely to choose WOS mode of entry.*

Market-seeking Motive without Technological Competence

Compared to technological competence which applicability is more universal, the marketing or selling ability, or the strength of firms' market or brand positions are more rooted in home countries (Kogut and Singh 1988; Morschett et al. 2010), thus being difficultly transferred to host countries especially when host countries are culturally distant. Cultural distance causes high unfamiliarity of firms

to local environments such as market norms, sales channels, customer's preference and so on. On the one hand, a firm who seeks a new market for its products/services may restrict its resource commitment in a culturally distant country where its exposure to risks is relatively high. Lower resource commitment enhances its operational or strategic flexibility, thus making a lower-control mode of entry preferred (e.g., Barkema and Vermeulen 1998; Grosse and Trevino 1996; Kim and Hwang 1992; Shi et al. 2001). On the other hand, such a firm may leverage local partners' unique knowledge and resources (e.g., partners' social network) to reduce uncertainties of culture distance and to seek for prompt business opportunities (e.g., Barkema, Bell, and Pennings 1996; Hennart & Larimo 1998). Brouthers et al. (2003) suggest in their research of the CEE (Central and Eastern European) market that the manufacturing MNEs prefer JV to WOS as entry mode in a market with high uncertainty.

Therefore, when a firm without technological competence seeks for foreign entry to a culturally distant country while having the relatively active market-seeking motive of exploring and capturing local business opportunities, it may care more about the unique and culture-specific knowledge and resources related to local markets and business norms. Fear of expropriation of its indigenous resources, i.e., technological competence, may be relatively less. As such, the more culturally distant the host country is, the more propensity such a firm will have to choose an entry mode of lower control.

Hypothesis 2: When the cultural distance increases, the market-seeking firm without technological competence is likely to choose JV mode of entry.

Market-seeking Motive with Technological Competence, or Non-market-seeking Motive without Technological Competence

When a technologically competitive firm with actively market-seeking motive seeks for foreign entry to a culturally-distant country, it may put more emphases on partnering with local firms for quicker obtainment of market-specific knowledge, business networks and prompt sales opportunities if its technological competence is well protected legally and can be transferred smoothly to host countries. As such, JV is preferred rather than WOS. In contrast, if such a firm finds it difficult to have its technological competence legally protected and smoothly transferred to the target host country, it may prefer WOS to JV for having a higher control to reduce risks of spillover and expropriation of its technological competence caused by any equity-based partnership. For the development of host markets, such a firm may choose to hire local employees instead to obtain market-specific knowledge and local business opportunity gradually from the individuals' networks.

When a firm without any technological competence seeks for foreign entry just for low-cost advantages or for fulfilling its customers' requests, it may either choose WOS or JV that depends on which mode is economical or is acceptable for its customers. Therefore, we hypothesize that:

Hypothesis 3: When the cultural distance increases, the EMCs of the non-market-seeking firm without technological competence and that of the market-seeking firm with technological competence are likely to be mixed.

We herewith summarize our research hypotheses in Table 1 based on the two-by-two matrix of the strategic motive of entry and the firm-level resources.

TABLE 1
SUMMARIZED RESEARCH HYPOTHESES

	Non-Market-Seeking Motive	Market-Seeking Motive
Without Technological Competence	(Cell 1) H3: High CD → Mixed	(Cell 2) H2: High CD → JV
With Technological Competence	(Cell 3) H1: High CD → WOS	(Cell 4) H3: High CD → Mixed

METHODOLOGY

The Data

In this study, we utilize a uniquely compiled firm-level data set of Taiwanese manufacturing firms' overseas investment to empirically test the proposed hypotheses in aforementioned section. Owing to enormous changes in the industrial environment, such as a new emphasis on environmental protection, increasing land and labor costs, and volatile fluctuations in the local Taiwanese currency, which emerged as major issues starting in the late 1980s, many labor-intensive firms began to move their production lines overseas. Specifically, to meet the requirements of being a member of the World Trade Organization (WTO), Taiwan deregulated its regulatory policy enforced in the electronics industry regarding investment in China in 2001, which resulted in a substantial upsurge in FDI. For instance, the annual amount of outward FDI increased from US$1.8 billion in 1992 to US$15.2 billion in 2008, culminating in an average growth rate of 19% over the period. The high growth rate reveals that Taiwanese firms are actively investing in foreign markets to meet the challenges of economic globalization. Currently, Taiwan is one of the most important investing countries in the world.

The data set utilized in this study is primarily drawn from the 2004–2007 Survey on the Outward FDI of Taiwanese Manufacturers conducted by the Ministry of Economic Affairs (MOEA) of Taiwan. This survey includes not only some firm characteristics, such as revenue, total employment, and R&D expenditure, but also variables related to overseas activities, for instance, investment areas and overseas R&D expenditure. More importantly, the information regarding the strategic motive of foreign entry and the technological competence of the focal firms, which enable us to tackle the CD paradox in entry mode choice by taking contingent variables, entry motive and firm's resources into simultaneous consideration.

Appendix 1 lists the overseas investment areas of Taiwanese manufacturers during the sample period from 2004 to 2007. As indicated in Appendix 1, China is the most popular investment destination for Taiwanese manufacturers, accounting for about 72% of their outward investment. This high concentration rate could be explained by the proximity of Taiwan to China, the intimate historical ties, and the use of the same language. Of course, the cheaper labor and the huge China market are also important factors for attracting Taiwanese firms. Southeast Asia, which includes Malaysia, Singapore, Thailand, Indonesia, the Philippines and Vietnam, is the second (accounting for about 10%), and the United States is the third (accounting for about 8%) overseas investment destination of Taiwanese firms.

Estimation Strategic & Econometric Approach

To explore the relation between entry mode and cultural distance under different combination of the firm-specific contingency variables, this study applies the split sample analysis (Belderbos, Olffen, and Zou 2011; Hoetker 2007; Sears and Hoetker 2014), which provides more general test specification and leads to consistent within-group estimates when comparing coefficients between groups of observation. Specifically, we divide the sample into four subsamples according to the combination of the firm' strategic entry motive (i.e., market-seeking and non-market-seeking) and the firm' technological competence status (i.e., with/without technological competence). We then estimate the effect of cultural distance on the entry mode choices (WOS/JV) under different groups.

As discussed above, this study focuses on the equity-based mode of entry, categorized into WOS and JV (Brouthers and Hennart 2007). We, therefore, set up two selection equations to characterize these two entry modes. Since there exists highly correlation between aforementioned selection equations, we will estimate these two equations simultaneously by using the bivariate probit model. The model setting is below.

$$WOS_i = CD \cdot \vartheta_1 + w_{1i}^{'} \cdot \tau_1 + \varsigma_{1i}$$
$$JV_i = CD \cdot \vartheta_2 + w_{2i}^{'} \cdot \tau_2 + \varsigma_{2i} \quad (1)$$

where WOS / JV represents the entry mode dummies; the CD represents the variable of cultural distance; the w_i stands for the vector of firm-level, industry-level control variables; the ς_{ji} (j=1,2) represents the error term, following the binary standard normal distribution with zero mean and variance-covariance matrix below. Given the above probability distribution, one can estimate the model by using maximum likelihood estimation (MLE).

$$\begin{pmatrix} \varsigma_1 \\ \varsigma_2 \end{pmatrix} \sim BVN\left[\begin{pmatrix} 0 \\ 0 \end{pmatrix}, \begin{pmatrix} 1 & \gamma \\ \gamma & 1 \end{pmatrix}\right] \tag{2}$$

Measures

Dependent Variables

The entry modes of overseas investment of Taiwanese manufacturers are surveyed for each firm in the questionnaire, which include sole proprietorship (WOS) and seven types of cooperating joint venture, including cooperating with Taiwanese enterprises, with local Taiwanese enterprises, with local enterprises, with local government, with local foreign enterprise, with Taiwanese natural persons, and with local natural persons. We set WOS =1 if the entry mode is by sole proprietorship, otherwise equal to zero. For the measurement of JV, to clearly (or purely) identify the effect of cultural distance, we only take the entry with local enterprises and with local natural persons into consideration. Therefore, we set JV =1 if the entry mode is by cooperating with local enterprises or with local natural persons, otherwise equal to zero.

Contingent Variables

We consider two important firm-level characteristics as the contingent variables. The first is the firm's strategic motive of foreign entry. We set that the firm's strategic motive of foreign entry is divided into market-seeking and non-market-seeking; the former is more active for the purpose of expanding or surviving, and the later, containing the generally the resource-seeking, such as seeking lower-cost labors or local natural assets, and the client-following is comparatively passive for the purpose of improving efficiency. The second firm-level contingent variable is the firm's technological competence. We define that if the technological source of the overseas investment entity is from the Taiwanese parent company, then the firm is with the technological competence, otherwise is without the technological competence.

Cultural Distance (CD)

As shown in most cultural distance and entry mode studies, in this paper, we also follow the concept of Hofstede (1980, 2001) to build up six cultural dimensions for each host country, which are shown in Appendix 2. To further calculate the cultural distance of each country, we apply the index by Kogut and Singh (1988) below.

$$CD_j = \sum_{i=1}^{i=n} [(I_{ij} - I_{is})/V_i]/n \tag{3}$$

where CD_j is the cultural distance of the jth country from the home country (i.e., Taiwan); I_{ij} represents the index of the ith cultural dimension and the jth country; s represents the home country and V_i represents the variance of the index of the ith dimension; and n is the number of cultural dimensions.

Control Variables

Firm-level and industry-level control variables have been included in this study. For the firm-level control variables, three firm-specific characteristics, namely, firm size, R&D intensity and the length of overseas investment (Inv. Time), are included. Firm size is measured by the logarithm of the number of employees (EMP). R&D intensity is measured by the ratio of R&D expenditure to sales.

The first industry-level variable we consider is the industrial capital intensity which is computed by the ratio of fixed capital to employees, since it is the most important variable used to describe the level of fixed costs endured by a firm (Buch, Kleinert, Lipponer, Toubal, and Baldwin 2005). Using the Industry, Commerce and Service Census which is conducted by the Directorate General of Budget, Accounting and Statistics (DGBAS) in Taiwan, we obtain the capital intensity for each four-digit industry. Furthermore, we include three industrial dummy variables to capture the other possible industrial effects. Idustry1, Idustry2 and Industry3 represent the dummy for metal, information and chemical industry, respectively. Finally, to capture the possible time consistency by the sampling, we incorporate three dummy variables, T04, T05 and T06, to represent the sample period. The summary statistics of the variables and the correlation matrix are displayed in Tables 2, 3, 4 and 5 respectively.

TABLE 2
MEAN AND STANDARD DEVIATION OF VARIABLES IN THE REGRESSION ANALYSIS

Variable	mean	S.D.	Min	Max
WOS	0.6676	0.4711	0	1
JV	0.0889	0.2847	0	1
Mkt Seeking Motivation	0.6192	0.4856	0	1
Technology Competence	0.5572	0.4968	0	1
CD	0.1310	0.0104	0.1060	0.1900
Firm Size	5.5564	1.5852	0	11.3972
RD Intensity	0.0540	0.8093	0	49.2484
Investment Time	1.8315	0.6702	0	3.7377
Capital Intensity	7.6228	0.6480	6.6964	11.8722
Metal Industry	0.2349	0.4240	0	1
Information Industry	0.4304	0.4952	0	1
Chemical Industry	0.1746	0.3796	0	1

According to the sample distribution of WOS / JV entry modes (Table 3), one can see that the majority of entry is by WOS (around 67%) in the whole sample, and 9% is entry by. cooperating with local enterprises or with local natural persons (i.e., JV). After furthering splitting the sample into four sub-samples (Cell 1, without technological competence & non-market-seeking motive; Cell 2, without technological competence & marketing-seeking motive; Cell 3, with technological competence & non-market-seeking motive; Cell 4, with technological competence & market-seeking motive), however, the WOS/JV distributions are quite different among different cells. When firms without technological competence (Cell 1 & Cell 2), compared to the whole sample, the proportion of WOS is decreased, ranging from 66.6% to 54.4% (Cell 1) and 56.8% (Cell 2); When firms with technological competence (Cell 3 & Cell 4), however, the proportion of WOS is increased to 76.6% (Cell 3) and markedly to 92.2% (Cell 4).

EMPIRICAL RESULTS

Table 5 provides the estimation results by using the bivariate probit model, where Cell 1 – Cell 4 represent the four subsamples as aforementioned, which are without technological competence & non-market-seeking motive, without technological competence & marketing-seeking motive, with technological competence & non-market-seeking motive, and with technological competence & market-seeking motive respectively. At first glance, the estimated impact of cultural distance (CD) on the entry mode choice (WOS/JV) is quite different from sample to sample. This further supports that it is meaningful to discuss the CD-EMC relationship under different contingencies. Our empirical results show that before splitting the sample, the increasing CD results in the increasing probability of choosing WOS entry mode, and this result is consistent with that of Brouthers and Brouthers (2001). After splitting

the sample, however, this significantly positive effect is not robust. The preference of entry mode choice under high cultural distance will depend on the firm-specific contingent variables. As the result shows, for the technologically competitive firms with the relatively passive non-market-seeking foreign entry motive (i.e., Cell 3), the CD has a significantly positive effect on the propensity of choosing WOS entry mode, and hence Hypothesis 1 is supported. However, for the firms without technological competence but having actively market-seeking foreign entry mode, Cell 2, the effect of CD is not significant for either WOS or JV equation. Hypothesis 2 is not supported in the full-sample testing.

TABLE 3
WOS / JV DISTRIBUTION, WHOLE SAMPLE & FOUR SUB-SAMPLES

Whole Sample (Obs:6,753)	WOS=4,497 (66.6%)	JV=610 (9%)
Sub-Sample	Non-Market-Seeking Motive	Market-Seeking Motive
Without Technological Competence	(Cell 1:Obs.=1,125) WOS=612 (54.4%) JV=126 (12.2%)	(Cell 2:Obs.=1,873) WOS=1,058 (56.8%) JV=220 (11.7%)
With Technological Competence	(Cell 3:Obs.=1,408) WOS=1,078 (76.6%) JV=80 (5.7%)	(Cell 4:Obs.=2,347) WOS=1,749 (92.2%) JV=184 (7.8%)

Since in our sample 72% of the overseas investment destination is China, to take the huge heterogeneities among China provinces into consideration, we drop the observations that have China as the destination of overseas investments, and re-run the bivariate probit regression. The empirical results in Table 8 show that for the technologically competitive firms with the relatively passive non-market-seeking motive of foreign entry (i.e., Cell 3), the CD still has a significantly positive effect on the probability of engaging in WOS mode and negative on JV mode. Again, Hypothesis 1 is supported. However interestingly, after excluding the observations with China as destination of entry, namely by controlling the heterogeneities among China provinces (e.g., the existence of different institutions in different provinces), we can see that for the firms without technological competence but having the relatively active market-seeking motive (i.e., Cell 2), CD delivers a significantly positive effect on the propensity of undertaking JV mode, as Hypothesis 2 predicted. The discrepancy in the result of Hypothesis 2 will be discussed in the following section.

When the firms are with technological competence and market-seeking motive (i.e., Cell 4), the CD has a positive but not significant effect on either WOS or JV entry mode, as shown in Table 5, which only partly supports Hypotheses 3, because WOS is preferred by firms that have neither technological competence nor market-seeking motive (i.e., Cell 1). When the observation of China is excluded, JV is preferred by firms with both technological competence and market-seeking motive and by firms of non-market-seeking motive without technological competence, as shown in Table 6; Hypothesis 3 is not supported in this condition. The discrepancy in the result of Hypothesis 3 will also be discussed in the following section. However, combining the empirical results shown in Table 5 and Table 6, we still suggest that Hypothesis 3 is generally supported and consistent to our hypothetical reasoning.

TABLE 4
CORRELATION MATRIX

		1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
1.	Cultural Distance	1											
2.	WOS	0.0593*	1										
3.	JV	0.0137	-0.4449*	1									
4.	Mkt Seeking Motivation	0.0809*	-0.0021	0.0243*	1								
5.	Technology Competence	-0.0408*	0.2063*	-0.0782*	0.0003	1							
6.	Firm Size	0.0028	0.1327*	-0.0824*	0.0289*	0.0273*	1						
7.	RD Intensity	0.0401*	0.0064	0.0025	-0.0176	-0.0268*	-0.0329*	1					
8.	Investment Time	-0.0916*	-0.0415*	0.0272*	-0.0318*	-0.1069*	-0.1569*	-0.0395*	1				
9.	Capital Intensity	0.0944*	0.0148	0.0061	0.1133*	0.0301*	0.1033*	0.0277*	-0.1187*	1			
10.	Metal Industry	-0.0422*	-0.0854*	0.0082	0.0611*	-0.0260*	-0.0908*	-0.0073	-0.0081	-0.1322*	1		
11.	Information Industry	0.1510*	0.1805*	-0.0403*	-0.0127	0.0812	0.1366*	0.0355*	-0.1474*	0.1769*	-0.4816*	1	
12.	Chemical Industry	-0.0653*	-0.0917*	0.0324*	0.0261*	-0.0344*	-0.0986*	-0.0159	0.0559*	0.0088	-0.2605*	-0.3979*	1

Note:

1. * indicates that correlation coefficients are significant at the 10% level or better.
2. From tolerance & VIF values, the collinearity will not be concerned.

TABLE 5
BIVARIATE PROBIT REGRESSION RESULTS

	Whole		Cell 1		Cell 2		Cell 3		Cell 4	
	WOS	JV	WOS	JV	WOS	JV	WOS	JV	WOS	JV
CD	4.9776***	2.3609	8.1575**	1.7175	3.3531	2.7902	21.8593***	-22.0592***	4.6982	4.0975
Firm Size	0.1016***	-0.1000***	0.0924***	-0.1344***	0.0767***	-0.0695***	0.1038***	-0.0674*	0.1250***	-0.1032***
RD Intensity	0.0077	0.0065	0.0641**	-0.0010	-0.0084	-0.1490	0.9166	-0.3875	-0.1188	0.1193
Inv. Time	-0.0989***	-0.1213***	0.0450	0.1824**	0.0138	-0.0484	-0.0945	0.1435	-0.1559***	0.1777***
Cap. Intensity	-0.0714***	0.0617*	-0.0641	0.2635***	-0.1926***	0.0931	0.0699	-0.0316	-0.0312	-0.0659
Industry1	-0.0497	-0.0162	-0.0626	-0.3172**	-0.1852**	0.2614**	-0.1584	0.2963	0.1366	-0.2215*
Industry2	0.3946***	-0.1142*	0.2572**	-0.3245**	0.4206***	0.0332	0.1671	0.1208	0.4862***	-0.1870
Industry3	-0.0702	0.0434	-0.1843	-0.2784*	-0.0616	0.3086**	-0.2266*	0.2364	0.1056	-0.0799
T04	-0.1901***	0.2149***	-0.2117**	0.3005**	-0.2234***	0.3241***	-0.0465	0.0945	-0.1956**	0.0994
T05	-0.0403	0.0753	-0.2109**	0.0387	0.0512	0.1757	0.0572	-0.0365	-0.0251	0.0316
T06	-0.0641	0.0039	-0.0917	0.1000	-0.0576	0.1617	-0.1640	-0.0793	0.0204	-0.1922*
Cons.	-0.1092	-1.8441***	-0.9816	-2.9800***	0.7193	-2.1262***	-2.9826***	1.3986	-0.3258	-1.0610
N	6753		1125		1873		1408		2347	
Wald χ^2	393.58***		530.72***		139.59***		111.35		143.40***	

Note:

Cell 1: Non-Market-Seeking Motive & Without Technological Competence, Cell 2: Market-Seeking Motive & Without Technological Competence, Cell 3: Non-Market-Seeking Motive & With Technological Competence, Cell 4: Market-Seeking Motive & With Technological Competence

1) Standard errors are in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

TABLE 6
BIVARIATE PROBIT REGRESSION RESULTS, CHINA ECLUDED

	Whole		Cell 1		Cell 2		Cell 3		Cell 4	
	WOS	JV	WOS	JV	WOS	JV	WOS	JV	WOS	JV
CD	1.5297	5.1500***	-2.1232	10.3114**	0.4180	6.3552*	13.6383***	-12.7848**	3.5186	6.3732*
Firm Size	0.1050***	-0.0967***	-0.0103	-0.0813*	0.1387***	-0.1400***	0.1791***	-0.0323	0.1286***	-0.0775*
RD Intensity	0.0282	0.0044	0.0279	-0.0020	1.2437**	-1.6203*	1.0485	-2.5125	-0.3059	0.3623
Inv. Time	-0.1297***	0.0419	-0.1977*	0.2143*	0.0925	-0.1223	-0.2838**	0.1546*	-0.2395***	-0.0655
Cap. Intensity	-0.0147	-0.0307	0.2128*	-0.1680	-0.3545***	0.1490	0.3961***	-0.1467	0.0643	-0.1525
Industry1	-0.0941	-0.0499	-0.0946	0.5265**	-0.3453	0.3552	-0.1545	0.3663	0.3707*	-0.6509***
Industry2	0.5522***	-0.3584***	0.4134*	-0.1142	0.8936***	-0.6148**	-0.0752	0.7597***	0.5255***	-0.8788***
Industry3	-0.2057*	0.1131	-0.1266	0.0270	-0.0239	0.1522	-0.3687	0.6129**	-0.0724	-0.2176
T04	-0.2122**	0.1477	-0.1860	0.3636*	-0.3062*	0.3763*	-0.0587	-0.0741	-0.1766	-0.0336
T05	-0.0319	0.0353	-0.1072	-0.0915	0.1036	0.3480	-0.0842	-0.1875	-0.0559	0.0203
T06	-0.0370	-0.0520	0.0001	-0.0547	-0.1334	0.1360	-0.2460	-0.0632	0.1097	-0.2262
Cons.	-0.3052	-0.9141*	-1.1548	-0.7994	1.4512*	-2.0167**	-4.4497***	0.8589	-0.9475	0.1759
N	1694		327		434		354		579	
Wald χ^2	645.37***		168.96***		107.70***		114.44***		94.71***	

Note:

1) Cell 1: Non-Market Seeking Motive & Without Technological Competence, Cell 2: Market-Seeking Motive & Without Technological Competence, Cell 3: Non-Market Seeking Motive & With Technological Competence, Cell 4: Market-Seeking Motive & With Technological Competence

2) Standard errors are in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

DISCUSSIONS AND CONCLUSION

Prior research attempts to solve the CD paradox in EMC by taking another contextual variables into consideration to examine if the investment risk, political risk, and linguistic distance would moderate the CD-EMC relationship. This study suggests that firms' foreign entry is a strategic choice and firm-level contingent variables, i.e., strategic entry motives and technological competence, must be considered while tackling the CD-EMC relationship. Firms may endeavor to have their strategies aligned well with external environments to enhance the strategic fit, thereby improving firm performances.

Based on the firm-level data set of Taiwanese manufacturing firms overseas investment during the 2004-2007 period, the hypotheses proposed are generally supported. The impact of cultural distance on the entry mode choice is contingent on firms' strategic motives of foreign entry and technological competence. We infer from our empirical results that firms with technological competence but relatively passive non-market-seeking motive of foreign entry have higher propensity to choose WOS mode as the CD increases. Such firms can ensure smoother transfer and better protection of their firm-specific competencies to and in their target host countries under a higher control mode of entry. Besides, they can support their existing customers with local production/services under the same entity without being through another vendor-qualifying process. When firms seek actively for new markets for their products and/or services but are lack of technological competence, they are likely to choose JV mode for utilizing local partners' networks and resources for gaining prompt opportunities of sales and, meanwhile, reduce potential risks of making less resource commitment under unfamiliarity in culturally-distant countries. Although the result of Hypothesis 2 under the full sample (i.e., including China) is inconsistent to the prediction (see Cell2 of Table 7), such a result is explainable. The observations of China occupy 72% of the full sample. Taiwanese firms are very familiar with China firms in terms of language, culture, customs, or even have established their social networks there directly or indirectly due to unique historical backgrounds between China and Taiwan. Thereof, Taiwanese firms may be more inclined to choose WOS mode in entry of China under highly familiarity. Behind such reasoning, the experiential effect may implicitly exist. As Erramilli (1991) claims, there is a U-shape relationship between the international experience of firms and the control level of entry mode. Unfortunately, we do not have any data regarding firms' experiences of either internationalization or host countries to examine the moderating effect of firm experience, but it is quite worthy for the future research.

Surprisingly, the results of Hypothesis 3 are only partially as predicted when we examine the CD-EMC relationship in conditions of firms with market-seeking motive and technological competence, and firms with non-market-seeking motive and no technological competence. In the samples including observations in China, we find that the CD-EMC relationship is mixed when firms are with technological competence and actively market-seeking motive, which is consistent with our prediction of Hypothesis 3. However, WOS mode is more preferred when firms have relatively passive motive of non-market-seeking, and have no specific technological competence, thus being inconsistent with our prediction. We depict this discrepancy from two perspectives: (1) we conjecture that most of the observations in China might follow their existing customers' requests to produce and serve locally in China for lower costs and in-time service; in this case, WOS is more cost-effective and time-saving as firms can use the same entities registered in the qualified vender lists of their customers without being audited and qualified again; (2) we suggest the existence of experiential effect under highly familiarity between China and Taiwan.

However, when we exclude the observations in China from our samples, JV mode is more preferred by both firms with technological competence and market-seeking motive, and firms with no technological competence and non-market-seeking motive, which is inconsistent to Hypothesis 3. For this discrepancy, we also provide two conjectures. One conjecture is that those firms might have international experiences relevant or irrelevant to host countries of entry, which make them more familiar to the business environments and institutions of target host countries, and know who may be reliable to partner with. Such international experiences potentially enhance firms' understanding and confidence at local markets, thus improving their projections regarding risks and returns (Gatignon and Anderson 1988). Those firms

can utilize experiences from previous foreign endeavors to safeguard against potential opportunistic behavior by local firms, thereof making high control modes less necessary even when they have specific assets or technological competence (Henisz and Delios 2002). The other conjecture is that the existence of institutional voids may implicitly affect the CD-EMC relationship from the perspective of protecting firm-specific resources; e.g., technological and/or operational know-hows, which is not examined in our model due to the limitation of data. From these conjectures and reasoning, we still suggest that Hypothesis 3 is generally supported and claim that the CD-EMC relationship is contingent to another moderators, i.e., international experience and institutional voids of host countries, when the market-seeking motive and technological competence are weighted equally.

This study makes two contributions to the research stream of CD-EMC relationship. First, different from prior research trying to disentangle the CD paradox in EMC by examining additional contextual variables (Brouthers and Brouthers 2001; López-Duarte and Vidal-Suárez 2010), this study is one of the scant that puts firm-level variables into consideration for tackling the CD paradox. Although firm-level variables have been much examined (e.g., Erramilli et al. 1997; Gils et al. 2006; Shi et al. 2001), most of prior research put foci on the direct effects of firm-level variables to the EMC. In contrast, this study examines how firm-level variables may moderate the CD-EMC relationship in order to directly tackle the CD paradox. Second, different from the majority of EMC research that uses firms of developed coountries as samples (e.g., Agarwal and Ramaswami 1992; Gatignon and Anderson 1988; Kim and Huang 1992, Brouthers and Brouthers 2001; López-Duarte and Vidal-Suárez 2010), this study is one of the scant which uses firms of newly undustrializing economics, i.e., NIE, as the focal samples to examine the EMC (e.g., Shi et al. 2001) and probably the first one to use samples from NIE to tackle the CD paradox in the CD-EMC relationship. With such a supplementation of research from the perspectives of firms of NIE, the stream of EMC research can become more complete and holistic.

There are some limitations and opportunities of future research. First, our samples are limited to the manufacturers of Taiwan, which might not be completely inferred to other industries like service (Erramilli and Rao 1993). Such an industrial effect can be studied in the future research by adding into our research model proposed here to examine the CD-EMC relationship. Second, we conjecture that the firm experience of either internationalization or host countries of entry may affect the CD-EMC relationship as suggested by prior research (e.g., Erramilli 1991; Shi et al. 2001) but unfortunately can not be explicitly examined due to the lack of data. In the future research, the international experience of firms and the existence of institutional voids of host countries that may affect the protection and appropriation of firm-specific resources can be considered simultaneously in our proposed model to tackle the CD-EMC relationship.

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APPENDIX 1

2004-2007 INVESTMENT AREAS OF TAIWANESE MANUFACTURING FIRMS

	2004	2005	2006	2007	Total
US	174	131	122	123	550 (7.83%)
Canada	2	1	2	3	8 (0.11%)
Mexico	3	1	2	1	7 (0.10%)
Latin America	11	11	6	10	38 (0.54%)
West. Europe	13	14	16	14	57 (0.81%)
East. Europe	5	2	1	2	10 (0.14%)
Hong Kong	79	67	70	67	283 (4.03%)
China	1,278	1,253	1,217	1,313	5061 (72.01%)
Japan	18	12	17	14	61 (0.87%)
Malaysia	39	26	22	22	109 (1.55%)
Singapore	20	11	10	11	52 (0.74%)
Thailand	42	32	31	31	136 (1.94%)
Indonesia	24	18	20	19	81 (1.15%)
Philippines	23	17	15	16	71 (1.01%)
Vietnam	59	40	49	62	210 (2.99%)
South Asia	3	3	1	2	9 (0.13%)
New Zealand/ Australia	3	3	5	1	12 (0.17%)
Africa	8	3	4	6	21 (0.30%)
Others	76	66	57	53	252 (3.59%)
Total	1,880	1,711	1,667	1,770	7,028

APPENDIX 2

CULTURAL DIMENSIONS OF HOFSTEDE (1980, 2001) BY COUNTRIES

	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	Pragmatics	Indulgence
Taiwan	58	17	45	69	93	49
US	40	91	62	46	26	68
Canada	39	80	52	48	36	68
Mexico	81	30	69	82	24	97
Latin America[1]	69	38	49	76	44	59
West Europe[2]	37.4093	81.0265	31.815	49.9682	64.2968	65.6026
East. Europe[3]	57	58	57	74	70	29
Hong Kong	68	25	57	29	61	17
China	80	20	66	30	87	24
Japan	54	46	95	92	88	42
Malaysia	100	26	50	36	41	57
Singapore	74	20	48	8	72	46
Thailand	64	20	34	64	32	45
Indonesia	78	14	46	48	62	38
Philippines	94	32	64	44	27	42
Vietnam	70	20	40	30	57	35
South Asia[4]	77	77	56	40	61	26
New Zealand/ Australia[5]	35.6164	35.6164	60.8178	21.3288	21.3288	71.1096

1: We let Brazil to be representative country for Latin America. Since according to the statistic data of the Investment Commission, MOEA (MOEAIC) of Taiwan, Brazil is the only Latin American country that is shown in governmental outward FDI report

2: We set France, Germany, Great Britain and Neverland as the representative countries according to the statistics report of outward FDI by MOEAIC, and then compute the weighted average value (by the amount of investment) of each cultural dimension of each country.

3: We set Czech as the representative country, since Czech is the only Eastern Europe country shown in the statistics report of outward FDI of MOEAIC.

4: We let India to be the representative country, since India is the only Eastern Europe country shown in the statistics report of outward FDI of MOEAIC.

5: We compute the weighted average value (by the amount of investment) of each cultural dimension of New Zealand & Australia.