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"CULTURAL DISTANCE AND ITS INFLUENCE ON MNES' CHOICE OF MARKET ENTRY MODE: THE CASE OF DR. SCHÄR"

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ABSTRACT

The following work examines the extent to which cultural distance influences the internationalization process of a multinational company along with the associated choice of entry mode. In contrast to most existing economic studies, which focus on the examination of several companies in this topic, only one company is analyzed in this thesis. Within the framework of a case study, the role of foreign culture in the internationalization process of the South Tyrolean company Dr. Schär is investigated. This analysis is divided into two parts. The first is to determine the cultural distance between Northern Italy and the countries in which Dr. Schär is represented. This facilitates the second part of the analysis, as countries that are culturally more distant from Northern Italy can be specifically selected. The second part deals with the question of how foreign culture influences internationalization and the choice of entry method. In this context, it is also tested whether it is valid that companies are more likely to choose an entry mode with less control and less use of resources when cultural distance is higher.

Keywords: Cultural distance, MNE entry, Internationalization.

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INTRODUCTION

In the last decades, the number of worldwide multinational enterprises (MNEs) and foreign direct investment (FDI) flows have increased significantly. MNEs are expanding to all foreign markets with different objectives, strategies, and entry modes. Due to increasing globalization in recent years, companies have been exposed to greater competitive pressure and must be able to react quickly to meet customer needs. Those that are not fast enough run the risk of being "overtaken", which means they could lose existing or potential customers and consequently suffer losses. To prevent this, many companies decide to expand further to break into new markets to accelerate their growth. However, this process is not without risk, as doing business in another country differs significantly from doing business domestically. There are various risks and barriers that a company faces the moment it decides to enter a foreign country. Political, demographic, cultural, or physical risks are just a few examples of the risks to which companies may be exposed at the beginning, during, or after their expansion (Cook, 2015). Especially expansions in markets with different economic, social, or cultural factors can be challenging for companies. They should be aware that different values can determine the lifestyle and business practices in other countries. A different language, religion, or education can complicate the process of internationalization. Therefore, a company should be able to identify all different factors to best respond and, possibly, adapt to local societal and cultural values.

Over the years various international economists have emphasized the concept of distance, which basically means to describe a difference between two or more countries. They have identified different types of "distance", such as economic, geographical, or administrative distance. However, the most researched is cultural distance (CD), which is mostly referred to when talking about distance in the context of international business. It describes the difference in cultural values and beliefs between the home country and the country into which a multinational company would like to expand (Shenkar, 2001). However, during the research, not only cultural distance was analyzed, but also its connection to the international business field, such as its potential influence on the internationalization process and the choice of the market entry mode. Novais and João (2016) analyzed the existing academic production addressing the potential influence of culture and found 216 articles published from 1988 to 2015. In particular, from the year 2000 onwards interest in this research topic increased significantly, and with it the number of articles. This is due to globalization and the resulting growing interest in foreign markets.

Two of the first scholars to study the impact of national culture on the entry mode selection of an MNE was Kogut and Singh (1988). The university professors conducted an empirical analysis using a self-developed index based on Hofstede's (1980) dimensional model. They concluded that the culture of the host country has an influence on the choice of entry mode of an MNE. Over time, more and more researchers investigated the potential influence of foreign cultures and came to the same or similar conclusion, confirming Kogut and Singh's findings (e.g., Erramilli (1991), Barkema and Vermeulen (1997), Anand and Delios (1997), Hennart & Larimo (1998), Chang and Rosenzweig (2001)). According to Agarwal and Ramaswami (1992) if MNEs should decide to expand into a foreign, culturally distant country, the choice of the right entry mode is fundamental. It may determine the success or failure of the internationalization project.

However, there are also academic articles that show a contrary result. Luo and Peng (1999), for example, found evidence that cultural distance and MNE performance are negatively correlated. According to their study, increasing cultural distance does not pose a risk to the internationalization process and therefore does not affect the entry mode choice. Similarly, Gatignon and Anderson (1988), found no significant evidence confirming a relationship between cultural distance and the selection of entry mode.

Looking at the existing literature on this topic, there is no clear and uniform answer to the question of whether the foreign, distant culture has an influence on the internationalization process or to what extent it determines the choice of entry method. These unclear and contradictory results may be caused by the use of different calculation methods and variables used. In addition, many other factors may also play an important role, such as the geographic and industrial setting in which the analyzes were conducted.

Since in most academic papers several companies with different individual factors have been taken as research samples, this thesis will focus on studying only one specific company and its experience with cultural distance in the context of the internationalization process. The company in question is called Dr. Schär a multinational company specializing in the production of gluten-free products. With its origins and headquarters in South Tyrol, a province in Northern Italy, the company has continued to expand over the years. This multinational company has locations worldwide, such as Germany, Spain, Turkey, the United States, Russia, Brazil, and Argentina (Dr. Schär Website). Some of these countries may be culturally different from the home culture, so problems may have arisen in the internationalization process. The aim of this paper is to shed light on the existing national cultural distance, how the company reacts to it, and to investigate a possible connection with the choice of market entry mode. Furthermore, this study examines whether the following hypothesis can be confirmed:

H: A greater cultural distance reduces the likelihood of choosing a high control entry mode with high resource commitment.

Chapter 1 provides an overview of the existing literature. First, the concept of market entry studies is reviewed. Different forms of market entry - equity based and non-equity based - are shown. Then, the topic of foreign culture is addressed. After highlighting various methods of measuring culture and the associated cultural distance, the two factors of foreign culture and entry modes are reviewed together. In this context, the existing literature is examined that addresses the potential effects of foreign culture on entry mode choice.

Chapter 2 provides information on the research method. This includes the selection and presentation of the target company, the analysis process, and how, for example, data is collected and results are presented.

The empirical results are presented and analyzed in Chapter 3. In doing so, all of the information collected will be examined to provide an answer to the research questions in addition to the analysis of the company's experience with cultural distance during the internationalization process.

In the end, all the results are summarized by highlighting the main findings of the thesis. In addition, remarks and possible limitations are given.

CHAPTER I – THEORETICAL FRAMEWORK

1. The Entry modes

1.1. Entry mode studies

Recent international business research confirmed that the correct entry mode choice is one of the most crucial parts of the MNE's entry process. It is so important that it may determine its success or failure. Further research indicates that once an entry mode is well-established it is very difficult to correct or change (Pedersen et al., 2002). So, what is the best way to enter a foreign market? A company has many possibilities to do so, but since the decision is based on different factors, such as firm -, industry -, and country-specific variables, it is very important to analyze them to decide on the correct entry mode. It has to be clear how committed and flexible a company can and wants to be. According to Pan and Tse (2000), a company will choose a particular mode of entry after the desired level of ownership and control is clarified. Several crucial aspects differ from entry mode to entry mode, such as the degree of risk they present, for example, the risk of investing in a foreign country. Another aspect is the commitment of resources they require, so how much does the company have to invest. Also, the return on investment is to be considered and within what time frame it can be realized. Generally, it can be assumed that as the level of control increases, so does the level of risk, return, and resource commitment (Figure 1).

Figure 1 - Entry mode options

Source: Lu et al. (2011)
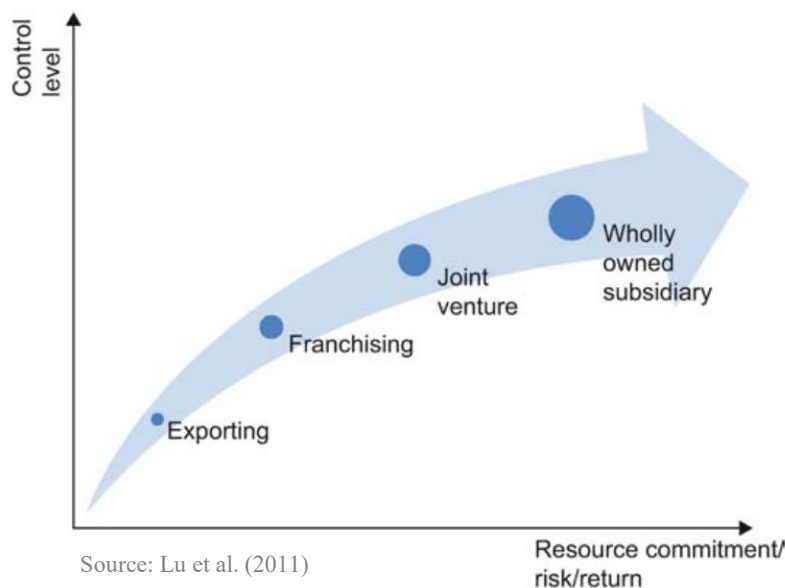
Hennart and Brouthers (2007) identified 16 different entry modes that were used in previous studies. The literature shows that although there are many different entry modes, not all have been examined as detailed as would be necessary. Hennart and Slangen (2015) argued that there is an essential need for more entry-mode studies. They contradicted Shaver (2013), who suggested no more studies since there is already a clear and sophisticated understanding of how companies choose their foreign entry mode. In his eyes research becomes more and more incremental by playing the so-called "R2 game" which means the study's contribution is mainly methodologic rather than substantive. Different samples, new statistical methods, or different factors are added to the equation which does not make any transformative contribution and just elaborates and refrains from what is already known. Hennart and Slangen agreed partially on that, stating that the few studies playing the "R2 game" make only methodological contributions. However, the majority of studies conducted in the last twenty years were able to offer new theoretical insights by providing new avenues for research.

Kumar and Subramaniam (1997) and Pan and Tse (2000) suggest a hierarchical model, which is shown in Figure 2. According to them, a manager sets certain evaluation criteria, which are used to rank the different entry modes in a multi-level hierarchy. Different factors are considered at different levels. At the first level, managers decide between equity or non-equity mode. The question here is whether the company wants to invest equity or not. At the second level, managers decide on a specific form of equity mode (equity joint venture or wholly owned subsidiary) or non-equity mode (contractual agreements or export). They underline the importance of differentiating equity and non-equity modes at the first level since the former calls for a major resource commitment and an actual investment for setting up an independent operation.

Figure 2 - Entry mode choice
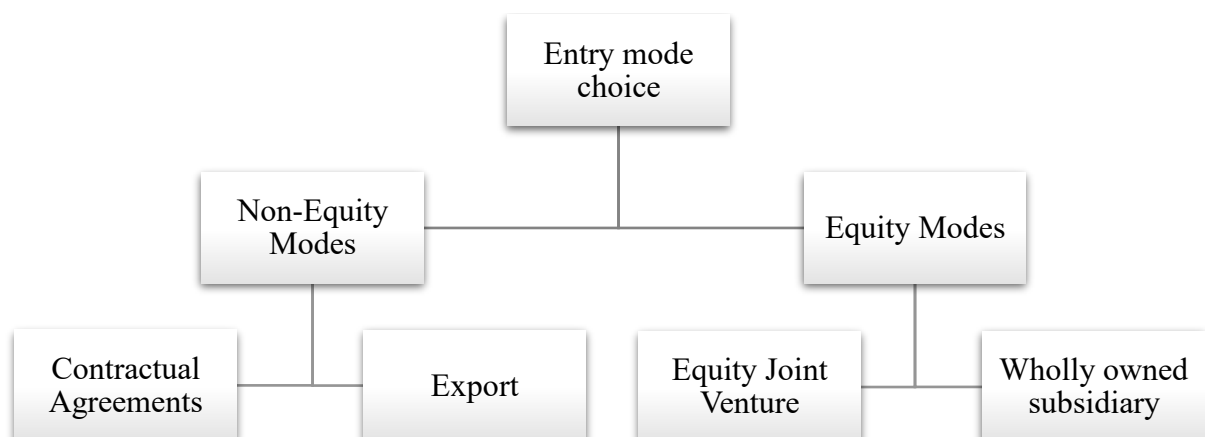
Source: Pan and Tse (2000)

Pan and Tse point out that there are factors that influence the choice at the first level but not at the lower level of the hierarchy, which means these factors can be effective in distinguishing between equity modes and non-equity modes. However, they may not tell us how to distinguish between EJVs and Wholly-owned subsidiaries, or between contractual arrangements and exports. Examples of macro-level factors are host country risk, risk orientation, political relationship, and asset management.

1.2. Entry mode choice

1.2.1. Non-equity-based entry modes

In general, a distinction is made between export and contract arrangements. They are characterized by less risk, less control, and less resource commitment. No establishment of a new company is required, all important information about the business relationship is recorded in the contract. Also, various factors, such as country-specific factors, have a different impact on companies with non-equity entry modes than on companies with equity-based entry modes. For such companies, the location of the host country, for example, is not so important, since they either export there or their business activity is based on a contract. Therefore, they cannot benefit from the location of the host country because they are not physically present (Pan and Tse, 2000).

- Export

Most companies start their first international process by using export as a market entry mode. In doing so, they can decide between direct export, indirect export, and cooperative export. Export in general means the sale and shipment of goods or services to the country a company wants to enter. It comes with several advantages such as low cost and favorable government policies. Since exporting goods and services to foreign countries brings foreign currencies into home countries, it helps to create foreign currency reserves. That is a reason why some governments favor exports and give companies different incentives, such as tax benefits. On the other hand, exporting can be very expensive, especially transportation costs can be extremely high. In addition, the risk of customs barriers and foreign exchange might hinder the process (Pressbooks Website).

- Contractual agreement

For contractual agreements, Dunning (1988) distinguishes between licensing, franchising, leasing, and management service contracts. Licensing or franchising means a company sells its

intellectual property rights to the host company and receives a royalty in return. Usually, the fee is the sum of a fixed amount and a percentage of the generated revenue. This entry method is characterized by low risk and low development costs. However, a negative aspect is low control over business processes and technology. An example of a licensing agreement is the agreement between the U.S.-based Salamon Group and a Canadian company in 2008. It was decided that the licensee, the Canadian company, would receive the rights to manufacture and commercialize Salamon products. Salamon was paid a license fee of $15,000 and an additional 3% of the gross sales value (Hyatt, 2016). Similarly, a management service contract is defined as the provision of managerial know-how by one company to another company for a specified period. Also, in this case, the company providing their expertise receives a fee. Management service contract represents a low-risk foreign entry method and offers profits right from the beginning. There is also the possibility that the company providing the service will acquire part of the shares after some time. Especially in the utility services sector, which is mainly found in developing countries, contracts are signed with industrialized countries for management services to build new infrastructure.

1.2.2. Equity-based entry modes

Pan and Tse (2000) distinguish between Wholly-owned subsidiaries (WOS) and equity joint ventures (EJV) when differentiating equity-based entry modes. The latter is also referred to simply as a joint venture (JV).

- Wholly-owned subsidiaries (WOS)

Greenfield investments and acquisitions, both WOS entry modes, require a direct financial investment in the host country. This allows the multinational company to have more direct control over actions and operations, but it also requires resource commitments and implies more risk and less flexibility. Furthermore, knowledge about the consumers and competitive environment is fundamental. Hill, Hwang, and Kim (1990) explained that by choosing Wholly-owned subsidiaries the risk of dissemination of know-how is the lowest. They talk about an "atmosphere" that is created internally within an organization where goals and values are perfectly coherent between members. Nevertheless, it is important to know that a residual risk always remains. An employee with specific know-how may leave the company and join a competitor, even if it is less likely compared to other entry modes (Hill et al., 1990). Foreign direct investment in form of a WOS is clearly the costliest commitment a company can make, and it is massively biased by the size and attractiveness of the target market. Yiu and Makino (2002) pointed out that the WOS entry choice provides companies with the opportunity to enter

new countries, different industries, and markets. If they enter in the right way, Wholly-owned subsidiaries provide good protection against environmental changes, such as political, legal, or market changes. Examples are Japanese car makers such as Toyota and Honda which have made big investments in the U.S. market. We differentiate between two types of Wholly-owned subsidiaries: greenfield investment and acquisition.

<u>Greenfield investment</u>

First, the greenfield investment is considered to be very risky since an entirely new plant has to be set up. A company decides to enter a foreign market by starting a new organization from scratch by investing, in the land, building, capital items, and a lot more. A greenfield operation creates a new legal entity in the host country. It offers an opportunity to gain local market knowledge, promises above-average returns, and gives you the highest degree of control over operations. Specific knowledge and technologies are better protected by a higher level of control (Hitt, 2009*)*. The company benefits from more cost-effective production facilities, gains access to new processes and specifically acquired knowledge, and has the opportunity to reposition itself (Hyatt, 2015). A greenfield operation in a developing country allows for reduced labor and production costs and easier access to raw materials and other resources. Host governments are usually positive about greenfield investments because they involve new staff recruitments and the establishment of new structures. Furthermore, there is no risk of overpaying for the acquisition of a local company, and no integration problems arise. Although starting a greenfield business can take at least three or more years and therefore takes much longer compared to other options, it may be preferred if no acquirable company can be found that suits their strategy. However, a company has to be well prepared and committed to a long-term association with the host country since the capital invested is significantly high and backing out would generate huge losses. Though, it is not guaranteed that a substantial investment will be successful. Complicated access restrictions and government regulations, such as "local-content requirements" may also hamper the process. The company must conduct a thorough market analysis, preferably with the help of consultants, to avoid wrong actions that could end in failure. Greenfield investments are really common in the automobile industry.

A real-world example of greenfield investments is Toyota Motor Corporation. They announced plans to build a new manufacturing company in Mexico in 2015. Toyota's idea was to improve competitiveness in the United States and Canada. They chose Mexico as their host country since the lower labor costs and proximity to U.S. markets gave them an attractive opportunity for expanding in a foreign market. The company entered the market with a greenfield operation to retain control over Toyota's highly efficient manufacturing process (Hoskisson et al., 2009).

Similarly, in 2007, Mercedes Benz bought more than 100 acres of land in Pune, a metropolis in Maharashtra, India. Afterward, they constructed buildings, bought new machinery, and hired new employees. Their strategy was to establish a new manufacturing company to enter the Indian market. Mercedes Benz conducted a thorough cost-benefit analysis, which showed that it would be more cost-effective to build its new operation from scratch. One reason was the high import duties the company would have had to pay if they exported their cars.

Acquisition

Acquisition as a form of market entry means that a company takes control of an existing foreign company so that it can do business in that country. In the case of listed companies, they usually buy the shares; in the case of private companies, they pay a purchase price. Acquisitions are attractive because they provide easy and clear access to local knowledge and allow the acquiring company to take advantage of a company that is already well integrated into the local market. The company can draw on the brand image that the acquired company has already built. In addition, the time required to start operations is reduced because assets, resources, labor, and tacit knowledge are already in place. Especially in times of globalization and the associated increase in competition, companies are forced to act quickly. They profit from the existing integration and coordination of different organizational activities. Another advantage of acquiring an existing business is that there are no start-up difficulties, such as obtaining a building permit from the local authority or finding suitable partners (Cavusgil et al. 2002). However, the acquisition entry mode has also some disadvantages. A company normally invests a substantial amount of money and hence the risk is higher compared to other entry modes. It gets even riskier if the host country is an underdeveloped or emerging country with an unstable market. It also may be difficult for the company to absorb and integrate all acquired assets. Moreover, there is a risk of overpaying for the acquired company. Especially in developing countries with weak currencies and low-interest rates, the risk of overpayment is high. However, the various currencies in the world have become stronger in recent decades. Their currencies have strengthened against the euro or the dollar due to higher interest rates. Therefore, if the acquiring company is located in a country with a strong currency, there is the possibility of lowering the acquisition price.

One example of a successful market entry was the strategy of Amica, a Polish company that manufactures kitchen appliances. Amica entered three different markets between 2001 and 2015 through the acquisitions of Gram, CDA, and Hansa. The Gram acquisition gave Amica access to the Danish market. CDA and Hansa allowed the company to enter the English market and the market of various Eastern European countries. Alina Jankowska-Brzóska, Vice

President of Sales and Marketing at Amica, explains that one reason for choosing acquisition as a market entry mode is the already established distribution channel of the acquired company. Amica's analysis has shown that it would be much more difficult to export goods to these countries and distribute them later. Another reason is the already existing brand of these companies, which are well-known by customers. Mostly they use acquisitions to enter new markets, but they also consider exporting, depending on the host country's location and the political and cultural conditions (MNC Whispering Website).

Ebay represents a failed example of an acquisition market entry. They expanded into China by acquiring a 33 percent stake in EachNet in 2002, followed by a 100 percent acquisition in 2003. At the time of the 33 percent investment, EachNet was particularly successful; they managed to double their market share. The initial success convinced eBay to fully acquire EachNet. In the early years, the company managed to grow and perform well, but unfortunately, this success did not last long. The acquisition of EachNet was a failure mainly due to the poor understanding of the local business dynamics. For example, a lot of money was spent on the wrong advertising channels. They invested primarily in Internet advertising instead of TV commercials. Twenty years ago, many small Chinese businesses didn't use the internet as much as their television. In addition, eBay failed to understand that even though the brand was heavily used in the U.S., hardly anyone in China knew what the company was about, and most Chinese citizens refused to adopt traditional eBay practices. Unfortunately, they were also exposed to a high degree of risk, as the rapidly changing Chinese market was very unstable. Besides all the reasons just mentioned, the biggest problem was probably TaoBao, a subsidiary of Alibaba. They were able to outperform EachNet by better adapting to the business environment. TaoBao was more customer-centric and prioritized interactions between buyers and sellers, which is important for Chinese citizens. In summary, EachNet was unable to fully address the specifics of the Chinese market and was overtaken by TaoBao, leading to the failure of eBay's market entry into China (Wang, 2010).

- Joint Venture

A joint venture is an arrangement between two or more parties in which they decide to pool their resources to accomplish a specific task or achieve a specific goal. The precondition for the formation of a joint venture is the congruence of the vision and strategic goals of both companies. They take advantage of their partner's specific knowledge, equipment, facilities, and reputation. Each of the parties involved, also known as co-ventures, is responsible for the profits, losses, and costs associated with it. A joint venture can be a good entry choice to realize strategic motives and enable transactions with tacit knowledge. According to Kogut and Singh

(1988), a joint venture is an attractive entry mode when tacit knowledge is a priority in the transaction. He explains that tacit knowledge is embedded in people's minds and cannot be found on paper. Since both companies need to work closely together to achieve their goal, the best way to make this transaction is in a hierarchical structure. So, if one company does not want a merger with its partner, a joint venture relationship would be an alternative. In addition, a joint venture allows the companies to reduce their propensity to engage in opportunistic behavior as they are in a mutual hostage position. Both companies have made investments and costs and profits are shared (Meer-Kooistra and Kamminga, 2010). However, opportunistic behavior cannot be completely ruled out, as it is always possible for a party to deceive or obfuscate in order to advance its own interests in business dealings (Xue et al., 2016). Another major advantage of a joint venture is the lower political risk, as the company in the host country has more experience and insight into the local market and therefore knows its business environment. Especially in emerging markets creating a new "third" entity with another party is not uncommon. Hoskisson et al. (2009) find that a joint venture in a developing country offers greater market concentration potential and can achieve higher value creation than a Wholly-owned subsidiary. Some governments may discourage or completely prohibit foreign undertakings so also in this case joint venture could be the way to enter its market. One example is the Indian market where some sectors such as print media, insurance, power exchange sectors, or broadcast content services do not allow full ownership by foreign countries. However, joint ventures also have some disadvantages, such as possible conflicts between partners. A joint ownership agreement can lead to fights for more control. For example, if goals or views on various matters have changed. Or what happens if the foreign company gained enough expertise over the host country after some time? They depend less on their local partner and will probably start to negotiate on the owner structure. Another problem with a joint venture is finding a suitable partner. It might be difficult to work with companies that have a different cultural background (Peng, 2006).

A real-world example of an international joint venture is the agreement between Kellogg, the world's leading producer of cereal headquartered in the U.S., and Wilmar International Limited, an agribusiness group located in Singapore. Kellogg International wanted to enter the Chinese market to strengthen its presence worldwide. In September 2012, the two companies announced their 50:50 joint venture with the business idea of producing, selling, and distributing cereals and sweet and savory snacks to consumers throughout China. Kellogg contributes its portfolio of well-known products and brands along with its extensive knowledge of the cereal and snack industry to the joint venture. Wilmar provides infrastructure, machinery, well-established sales, and distribution channel, along with the local market expertise. Both companies were able to

complement their technology and expertise to maximize synergies. This was Kellogg's second attempt to expand in China. Its first attempt, the acquisition of a majority stake in China's Navigable Foods in 2008, failed. The company was unable to operate profitably and only made operating losses, which led them to sell their share in early 2012. Kellogg's 2011 annual report (United States securities and exchange commission) discloses: "*As a result, management determined in 2010 the current business has not proven to be the right vehicle for entry into the Chinese marketplace and began exploring various strategic alternatives to reduce operating losses in the future.*" In that same year, selling their stake in Navigable Foods, they decided to enter into a joint venture with Wilmar, which was a success. "*This joint venture positions our China business for growth and fundamentally changes our game in China. Our organizations have developed a strong working relationship and trust. I am pleased to be working together with Kuok Khoon Hong and his talented team and have every confidence that our partnership will be a long-term success,*" so John Bryant, Kellogg's president and chief executive officer (KelloggCompany).

To recap, Zhang et al. (2007, p.756) noted:

> Generally speaking, a joint venture is the most convenient way to acquire the resources of a local partner as well as minimizing environmental risk, whereas it also runs the risk of opportunistic behaviour on the part of the partner. Green-field investment provides the greatest control over the local facilities, but sometimes may not obtain policy privileges from host governments. Acquisition offers the fastest means of building a presence in a foreign market, but it is fraught with overpayment and the challenge of cultural and national differences. Green-field investment and acquisition represent full ownership, while a joint venture suggests only partial ownership. Additionally, green-field investment needs to form a new venture, which is not necessary in acquisition, while a joint venture means both a new operation and using a partner's existing assets.

2. Foreign Culture

2.1. Definition of Culture

For companies that like to expand into a foreign country, it is of utmost importance to study the local economic, social, or cultural factors, otherwise it can slow down or even stop the internationalization process. For example, it was eBay's lack of understanding of local business dynamics that was responsible for its failure to expand into China. The company did not gather enough information about the local culture, which had serious consequences. But how exactly can we evaluate the foreign culture in order to prevent that? To answer this question, we must first clarify what our understanding of the term 'culture' actually is. The word culture is used in various situations, however, it is not so easy to describe, since there are different meanings and interpretations of it. According to Kluckhohn (1951, p.86)

> Culture consists in patterned ways of thinking, feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiments in artifacts; the essential core of culture consists of traditional (i.e. historically derived and selected) ideas and especially their attached values.

Spencer-Oatey (2008, p.3) describes culture as

> a fuzzy set of basic assumptions and values, orientations to life, beliefs, policies, procedures and behavioural conventions that are shared by a group of people, and that influence (but do not determine) each member's behaviour and his/her interpretations of the 'meaning' of other people's behaviour.

Geert Hofstede et al. (2010, p.6), describes the word culture this way: "*The programming of the human mind by which one group of people distinguishes itself from another group*." Hofstede not only addressed the issue of foreign culture but also developed a model for measuring it. After individual aspects of culture have been presented, Hofstede's model is described in more detail.

A culture contains various subdivisions, which can be seen clearly in Figure 3. There are symbols, which are located at the outer circle. This is because people can easily change their attitude towards certain symbols, usually without emotional impact. Examples of symbols are favorite colors or eating habits. Heroes are associated more with emotions. Most people have idols they look up to. Whether these are famous personalities, deceased people, or even fictional characters is completely irrelevant. In addition to heroes, rituals are also important to people. These are recurring events that imprint on us subconsciously. Celebrating a national holiday or greeting people represents a ritual. Last but not least, there are values, which are very much connected to people's emotions. Examples of values are equality, justice, and generosity. They

are usually passed down from generation to generation and are formed in a person's younger years. Therefore, they are deeply rooted and difficult to change (Hofstede Insights).

Figure 3 - Cultural subdivision

Furthermore, culture can be divided into two different categories. On the one hand, we have national culture and, on the other, organizational culture. The former usually describes the attitudes and values of a group living in a particular nation. It is a phenomenon that is only evident in the group and describes the rituals, expectations, or values of this group. Organizational culture, in contrast, describes how a group behaves in a particular organization. For example, people in a certain occupational group can be better compared with other people in the same occupational group, because they do not represent the whole nation (Hofstede Insights).

In the course of this work, national culture will primarily be addressed, which will be taken up again later.

As we know cultures differ from country to country and can thus be a problem for companies looking to expand. Therefore, foreign values, beliefs, rules, and business practices should be studied well in order to be prepared and to guarantee the right decision-making. But how exactly can you measure foreign culture?

2.2. Measuring and analyzing foreign culture

2.2.1. Hofstede's Model

Many scholars recommend a widely used model called "Hofstede's cultural dimensions theory" to analyze foreign culture. Gert Jan Hofstede is a Dutch professor at Wageningen University and an active researcher in the field of socio-ecological and socio-technical systems. In 1980, Hofstede developed a model with different dimensions, all measured on a scale from 0 to 100.

Originally there were only four dimensions, two were added later after some studies were carried out. The six dimensions include Power Distance, Uncertainty Avoidance, Individualism, Masculinity, Long-term Orientation, and Indulgence.

Hofstede's study is based on the HERMES Attitude Survey Questionnaire, a questionnaire for employees used in subsidiaries of a company named IBM. All surveys were conducted between 1968 and 1972 in more than 40 countries. The focus was on economic, demographic, geographic, and political indicators. Based on this questionnaire, Hofstede developed the first distance index, the power distance index, which is the average of three different variables: Decisions preferred by employees, how employees perceive managers' decisions, and how they handle disagreements with their superiors. In the following, the power distance index and the other five dimensions are explained in more detail.

- Power Distance

Power distance, probably the most important cultural dimension, describes to which extent society accepts that power and inequality dominate the country. All countries face inequalities, whether in power, laws or rights, social status, or wealth. Hofstede (1984) goes so far as to claim that it is precisely this inequality in power that is essential for an organization to function. He explains this in terms of the unequal distribution of power among the employees of an organization. The hierarchical structure in a company is an inevitable one, says Hofstede. He distinguishes between two hierarchies, one on an organizational level and one on a subjective level. The first is based on objective elements, such as employee skills and know-how. The second describes more the relationship between the employees, including how they interact with each other or how they influence each other individually. Social norms play a major role in this (Alessa, et al., 2021).

But how exactly is it possible to measure this power and inequality in different countries? The Power Distance Index, one of the indexes developed by Hofstede, measures the extent to which inequality, hierarchies in institutions, or power is accepted by the public. Countries with a high-power distance index indicate the acceptance of inequality and status differences. They respect authoritarians and support bureaucracy. Examples of countries with a high-power distance index are Saudi Arabia and Malaysia. Conversely, Australia and Denmark are examples of countries with a low power distance index. Their culture does not accept centralized authority and decision-making. They emphasize the distribution of power and are uncomfortable with hierarchical levels. Figure 4 illustrates which countries have a high or low cultural distance. However, it should be noted that a higher or lower cultural distance does not say anything about

whether society in a country handles situations better or worse. It only tells how we should handle certain situations since priorities and privileges are different (Ghemawat, 2011).

Figure 4 - Power Distance World map
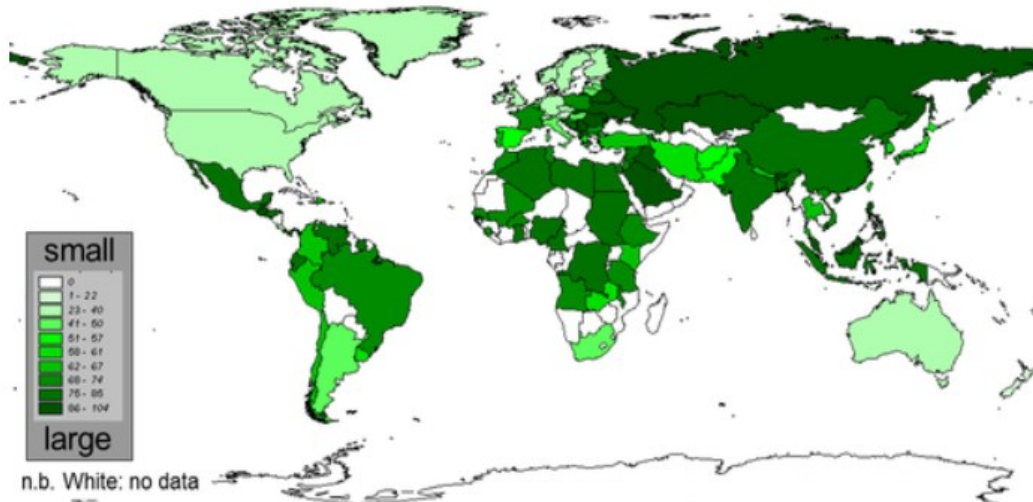
- Individuality

Individuality (Figure 5) represents the second dimension; it describes the level of independence of the population and the degree of integration into groups. A higher individuality index means that people place a lot of value on individual rights and loose social rules. In countries like Australia or the United Kingdom, the focus is on achieving personal goals. Hofstede emphasizes that a high individuality index has nothing to do with selfishness or egoism; it simply means that the population makes its own decisions. A low index, which can also be called collectivism, means that the population as a whole is more valuable than an individual. The well-being of the group has priority. Examples of members of collective cultures are Chile and Colombia. In his study, Hofstede emphasized the correlation of this dimension with the power distance dimension. He states that countries with individual structures prefer lower power distance. This can also be seen in the world map figures. The U.S., Sweden, Norway, and Australia all have a high individualism index, but a low power distance index. Conversely, Malaysia, Ecuador, and Panama have a collective culture and a high-power distance index. There are exceptions, like Poland or France. In these countries, the achievement of personal goals and independence is claimed, but they also accept inequality and status differences.

Figure 5 - Collectivism – Individualism World map
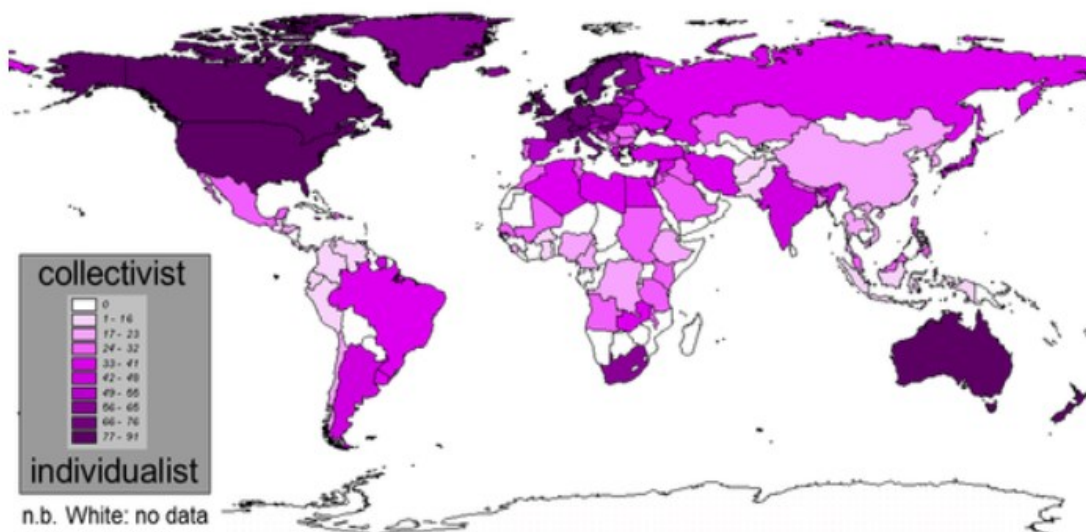
- Uncertainty Avoidance

The third dimension, uncertainty avoidance (Figure 7), describes the extent to which society accepts risk and uncertainty. This is less about rules to follow, and more about the uncertainty that scares people and therefore makes them demand fixed habits and the truth (Hofstede). It is quite evident that countries try to reduce or even avoid any uncertainties to the best of their ability. However, not all cultures react equally to uncertainty. Countries with a high uncertainty avoidance index want more structure and transparency, leading to stricter laws and risk-averse behavior. They are generally more conservative in entrepreneurial activities and are less tolerant of ambiguity. Portugal and Panama are examples of countries with a high index, the U.S. and Sweden are examples of countries with a low index. Countries with a lower index accept uncertainty and are characterized by looser rules and laws. They are more open to innovation and more willing to take risks, which encourages the creation of new businesses (Ghemawat, 2011).

- Masculinity vs. Femininity

The fourth dimension, masculinity vs. femininity describes how society stands on the issue of gender roles, sexual equality, and the use of force. More masculine countries have the following characteristics: the toughness of men, precise gender roles, assertiveness, and material achievements. Hofstede refers to the man as Mars and the woman as Venus to better portray

gender roles. For countries like Japan, which have a high masculinity index, size, rapid growth, and strength are extremely important. Countries, such as Norway or Sweden are more characterized by femininity. They place more emphasis on interpersonal relationships, modesty, and good quality of life. There are no precise gender roles and in the corporate sector, more attention is paid to employee satisfaction than to performance alone. Figure 6 shows which countries are more " feminine " and which are more " masculine ".

Figure 7 - Uncertainty Avoidance World map
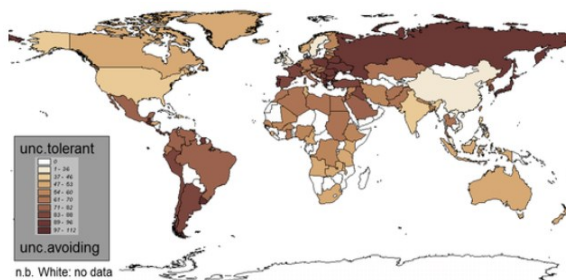
Source: Geert Hofstede Website

Figure 6 - Femininity – Masculinity World map
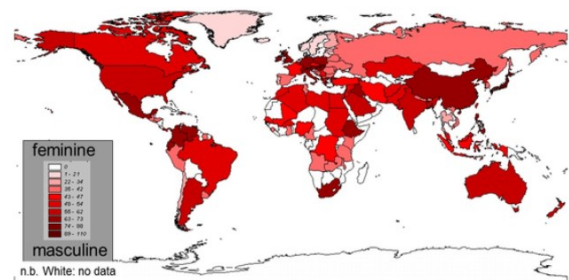
Source: Geert Hofstede Website

- Short-term orientation vs. long-term orientation and indulgence

Short-term orientation vs. long-term orientation and indulgence are the last two dimensions that were discovered in later studies. The former describes how the population of a country envisions the future and how they deal with change. Countries with long-term orientation emphasize long-term success and plan for the future. They provide for long-lasting, well-functioning structures and focus on long-term growth. China and Russia are examples of countries with a long-term orientation. Short-term orientation means that countries focus more on the present and think about short-term success. Traditions and values play a major role here, business processes are based on them, and they are rarely changed. Morocco and Venezuela are examples of such cultures. According to Hofstede, this dimension tells what religion, philosophy, and educational achievements a country has. Countries that have a long-term orientation are referred to as "flexhumble" because they are always changing and have a dynamic mindset to prepare for the future. "Monumentalism" refers to short-term-oriented cultures that prefer stability and a fixed mindset.

Indulgence, the last dimension, describes the degree to which people can live out their desires and dreams. According to Hofstede, it is about the good and beautiful things in life as well as freedom. Enjoying life, having fun, and having good company, are all characteristics of a compliant culture. A more restrained culture (less indulgent) is restricted by rules and norms and thus gives little room for the realization of individual dreams and goals. Life is harder, trapped in a system with little freedom. China and Turkey, two examples of countries with high restrained factors, make it difficult or even forbid people to live their own lives. Canada and New Zealand are examples of countries with a high indulgence index, for them, it is easier to pursue their own goals and make independent decisions.

Figures 8 and 9 show the world maps for the last two dimensions (Long-term orientation - vs. Short-term orientation and Indulgence - Restraint) just described. These maps show other countries, as they were developed later by Michael Minkov (2007) in his study. In 2010, Hofstede used these maps and adapted them to the already existing ones.

Figure 8 - Short-term orientation (Monumentalism) vs. long-term orientation (Flexhumility) World map
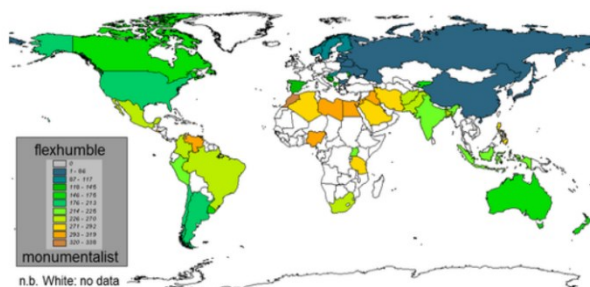
Figure 9 - Indulgence – Restraint

Source: Geert Hofstede Website
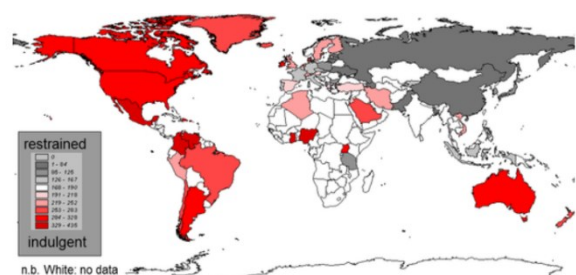
Source: Geert Hofstede Website

Even though Hofstede's model is the most widespread and frequently used model for analyzing a foreign culture, there are also some limitations and weaknesses.

First, average values of individuals are taken for the calculation of the index, which, however, cannot be generalized. Not all people in a nation have exactly the same cultural characteristics. It is clear that Hofstede's model has a top-down approach, where the dimensions are fixed in advance and cannot be changed. However, it is nothing new that different cultures exist within one culture. Not least due to globalization, these cultures have been mixed. Hofstede's model speaks only of national cultures. The fact that there can be several different cultural territories within the national borders is overlooked (Nizami, 2022). A good example that shows this is Switzerland with its three different national languages.

McSweeney, one of Hofstede's greatest critics, speaks of "national heterogeneity" in his paper addressing the fact that national uniformity cannot be assumed because "non-national cultures" and "non-cultural forces" may be both present in a nation. In his opinion, institutions or social structures can differ even within a country, and the uniformity of these structures is an open question to which there is no right answer. In this context, he refers to various literature on the subject of cultural diversity (e.g. Merelman (1984), Shearing & Ericson (1991), Smelser (1992), Philip Bock (1999)). Furthermore, Signorini et al. (2009) pointed out three problems that arise when using Hofstede's model during their research for alternatives to examine foreign cultures. First, they criticize Hofstede for equating "culture" with "nation." In this context, they address Hofstede's definition of culture, which is as follows: "*The collective programming of the mind which distinguishes the members of one group or category of people from another*" (Hofstede et al., 2010, p.9). Signorini states that this collective programming sees culture as a social nature, however, it is rather a social product since it is created by humanity itself. Secondly, they criticize the rigidity of the model because it does not include a flexible and constantly changing culture. Furthermore, the questionnaire itself, on which the model is based, is criticized because it has limitations of its own. The data was collected from IBM in the late 1960s and early 1970s, which of course did not have as much international mixed experience as companies today. Furthermore, only employees of subsidiaries of the same company were surveyed. The sample is therefore very limited and biased. So how accurate is Hofstede's approach to evaluating culture? And do other methods exist that might be a better alternative to Hofstede's model?

2.2.2. Schwartz's Approach

In the 1990s, Shalom Schwartz, an American-Israeli social psychologist, and cross-cultural researcher developed a model for analyzing cultural differences. He asked the population of various countries how important certain cultural values were to them and drew them on a map. In the process, Schwartz selected cultural values whose conceptual meaning is more or less the same in all the cultures studied and identified seven supergroups: Conservatism/Embeddedness, Intellectual Autonomy, Affective Autonomy, Mastery, Harmony, Hierarchy, and Egalitarianism (Figure 10). Similar to Hofstede's model, Schwartz's dimensions can also be interpreted as bipolar dimensions or contrasting juxtapositions.

First, embeddedness vs. autonomy describes the extent to which individuals are integrated into a group and the importance of tradition and image protection. An embedded culture emphasizes social order, preservation of tradition, adherence to social norms, and security. In contrast, autonomy describes the independence of individuals within a society, it describes how "free"

someone is. Schwartz distinguishes between two types: intellectual and affective autonomy. The former describes the pursuit of one's own thoughts and attitudes, such as how creative and curious a person is allowed to be. The latter means the enjoyment of life itself. Cultural values, such as pleasure, exciting life, or varied life play a major role (Schwartz, 1999).

The dimension of mastery vs. harmony describes the relationship between humanity and nature. A culture of mastery places a lot of emphasis on independence, pursuing personal goals, success, ambition, and competence. Little attention is paid to the environment; people put themselves before others. Harmony means the protection of the environment and being satisfied with the surrounding nature. Basically, more value is placed on society than on oneself (Elmoez, et al., 2021).

Figure 10 - Theorised structure of culture-level value types
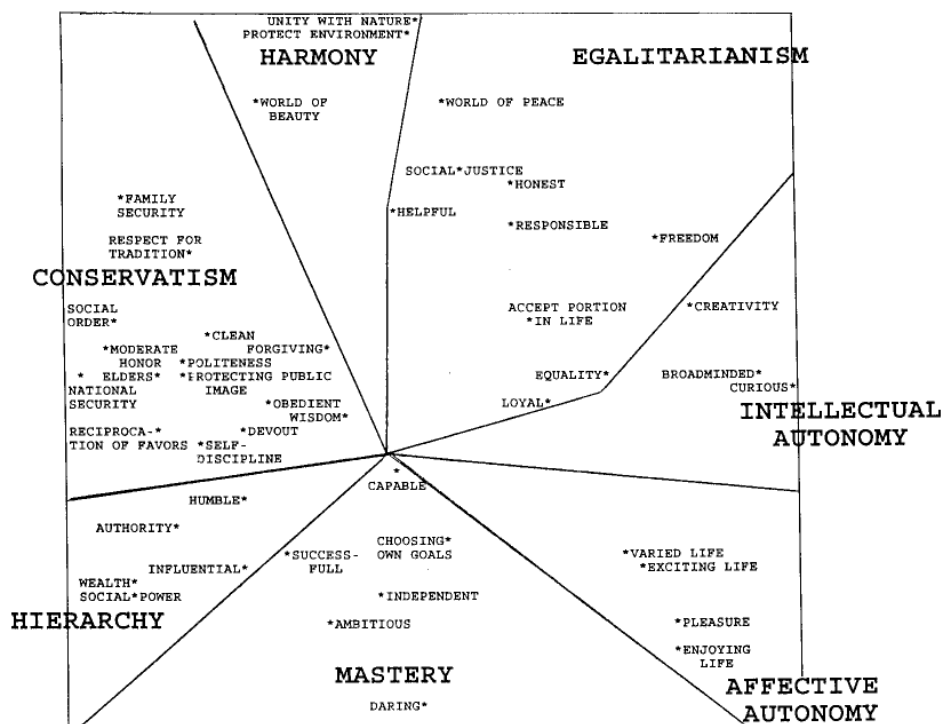
Source: Shalom H. Schwartz, (1999)

Lastly, hierarchy vs. egalitarianism, describes how individuals are seen or possibly classified in a society. Hierarchy means that individuals have different positions in society, some with more power, some with less. Typical cultural values are social power, authority, dependence, and obedience. Egalitarianism, on the other hand, assumes that everyone is equal, with the same amount of power. Much emphasis is placed on social justice, honesty, freedom, and loyalty (Schwartz, 1999).

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2.2.3. GLOBE's project approach

Another alternative to Hofstede's model is GLOBE's project approach developed in 2004. The "Global Leadership and Organizational Behavior Effectiveness (GLOBE)" study was conducted by Robert House and examined the importance of leadership in societies and organizations. It involved 170 different researchers collecting data from over 61 countries to develop a model with 9 dimensions. The dimensions are the following: power distance, in-group collectivism, institutional collectivism, uncertainty avoidance, future orientation, assertiveness orientation, gender egalitarianism, humane orientation, and performance orientation. It should be mentioned that this model is based on Hofstede's model and therefore some dimensions are very similar to it. For example, the "future orientation" dimension is similar to Hofstede's "short term vs. long term orientation" dimension, or the institutional and social collectivism dimension, which is related to Hofstede's individualism/collectivism dimension. Only the last two dimensions are completely original (humane orientation and performance orientation). The first one describes how important values such as justice, kindness, and generosity are; the last one describes support for performance improvement and success by society (Elmoez, et al., 2021).

There are alternatives to Hofstede's model for analyzing foreign culture, as mentioned above. However, the question is whether they are really better. Zainuddin et al. (2018) have looked at this in their study and concluded that Hofstede's model is the most widely used and established method for cultural analysis, and not without reason. They presented three arguments about why this model is still good, even though it may be outdated.

First, it is argued that the majority of scientists develop methods based on Hofstede's model. This shows that the validity of the model must be given. Generally, not much is changed, only certain variables are added, but they do not add much value. Second, Hofstede's model includes data from multiple countries in contrast to other models. For example, Hofstede includes all member countries of the EU, which GLOBE does not. Furthermore, they point out that Hofstede's model has fewer dimensions, which is quite an advantage. For example, GLOBE's approach showed different correlations between the dimensions, which could then distort the results if used in the same model. They also referred to a study conducted by Lowe and Gibson in 2006. The two researchers analyzed existing literature regarding Hofstede's dimensions model and found that in most cases Hofstede's model can successfully compare different cultures. Zainuddin et al. conclude that it would take a substantial cultural change to invalidate Hofstede's model, which again could take decades.

2.3. Cultural distance

Many scholars have already studied the issue of "distance" between two countries. They have identified different types of "distance", such as economic, geographical, or administrative distance. However, the most researched is cultural distance, which is mostly referred to when talking about distance in the context of international business. According to Hofstede (2001), "*cultural distance is defined as the degree to which shared norms and values differ from one country to another*" (Ha et al., 2020, p.3). These differences may be in the following areas: language, religion, family structure, wealth, and lifestyle (Triandis, 1998).

Beugelsdijk et al. (2017) investigated in their paper the relationship between cultural distance and the internationalization process of companies. They emphasize the importance of investigating possible cultural differences between home and host country before starting an internationalization process. If there are cultural differences, problems and difficulties may arise, as the entering company may not understand how business is done in the host country. Cooperation with local actors can be hindered by so-called "psychic distance" and "foreignness". Normally, for their first internationalization projects, companies select countries that are geographically and culturally closer to them. After they have gained international experience, companies then expand to countries with a greater cultural distance (Beugelsdijk et al., 2017). In their work, Beugelsdijk et al. have pointed out that the issue of cultural distance does not only play a role at the beginning of the internationalization process, rather it is an issue that influences all stages of the process. Whether the preparation phase, the initial investments, the decisions about the market or the entry method, or the final period of integration, all are affected by cultural distance. A visual representation illustrating the internationalization steps, which are characterized by cultural distance, is shown in Figure 11. All phases are characterized by social and cultural problems, as it is difficult for the entering company to follow the exact business procedures of host country actors. Sometimes it is also made additionally challenging for the company by local actors, as they do not tolerate external investors well. Companies can counteract this by adopting certain strategies, but it is not possible to completely eliminate cultural distance. However, to grasp the cultural distance, a company must first understand the existing culture in a potential host country.

Figure 11 - The Firm Internationalization Process Unpacked
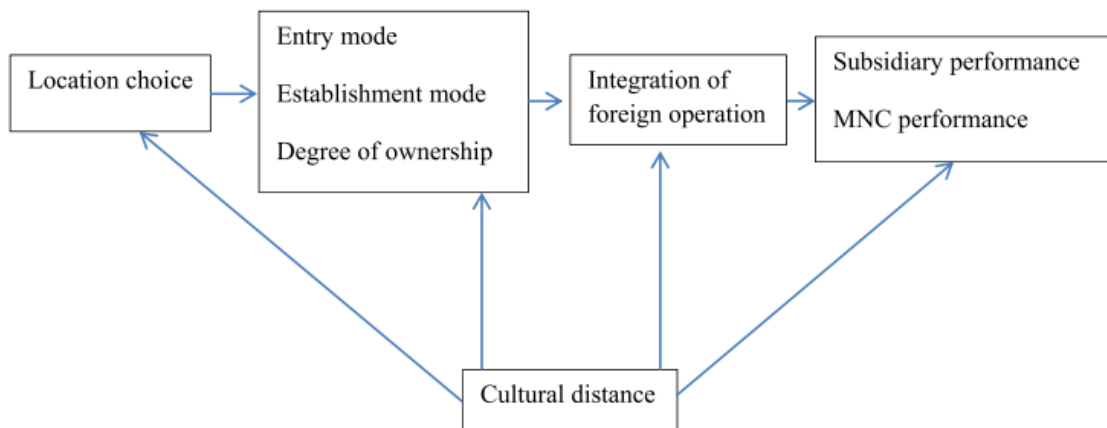
Now that the concept of cultural distance is clearer, how exactly is it possible to measure the distance between two countries?

The topic was first addressed by Kogut and Singh in 1988 when they published their article on entry mode choices. They made various measurements to analyze cultural distance and summarized this using an index that should measure how distant one country is from another. This index, called the Kogut and Singh Index (KSI), is the most commonly used method to measure cultural distance. Almost all studies that addressed this issue used the KSI as a calculation method (Beugelsdijk et al., 2017). Figure 12 clearly shows that the use of the index has increased significantly over the years, indicating its popularity.

Figure 12 - KSI as calculation method for cultural distance
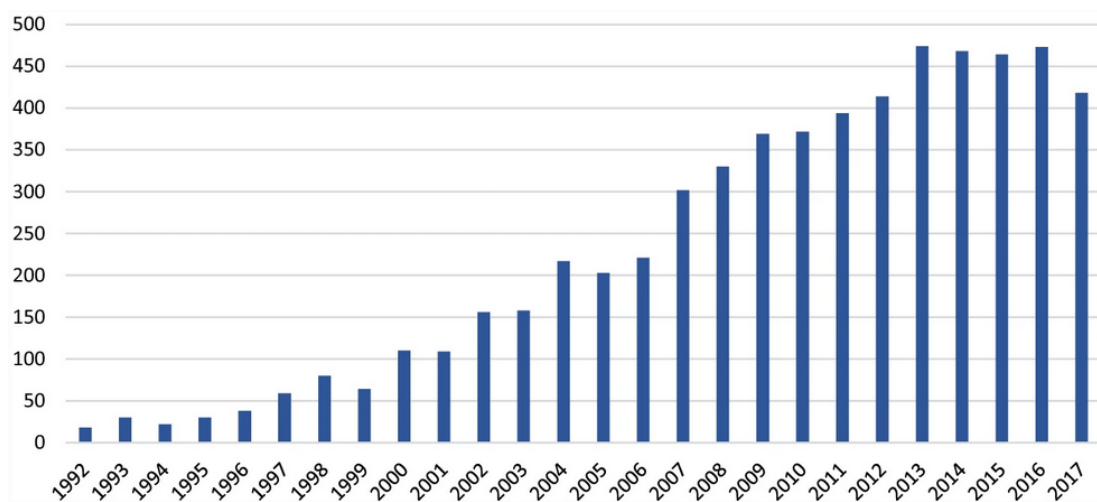
The (KSI) is based on Hofstede's four original dimensions: power distance, individualism, uncertainty avoidance, and masculinity. They combined the four dimensions and placed them in one formula:

$$KSI_{ij} = \sum_{k=1}^{4} \left(\frac{(I_{ki} - I_{kj})^2 / V_k}{4} \right) \qquad (1)$$

The index calculates the difference between two countries, denoted i and j. I_{ki} indicates the value of a certain dimension for country i, and I_{kj} indicates the value of the same dimension for country j. k can assume the numbers 1-4, depending on the dimension. The difference between the two values is then multiplied by itself again and divided by the variance of the dimension (V_k). To ensure that an average value of all dimensions is given at the end, the difference is divided by four. Kogut and Singh (1988, p.422) state: "*the deviations were corrected for differences in the variances of each dimension and then arithmetically averaged*". The average value is important because the index assumes that all dimensions are equally weighted since no dimension should be more significant than the other.

Although the KSI is the most widely used index for measuring cultural distance, some scholars criticize it. Shenkar (2001), for example, argues that the index has never been further developed since it was first used in 1988 and that, accordingly, some factors are missing. He suggests that the index should include more long-term orientation, especially when East Asian cultures are involved. Furthermore, he is critical of the use of averages because, according to him, the equivalence of dimensions is a flawed assumption. Hofstede himself says that cultural differences can have different effects especially differences in the dimension of uncertainty avoidance are the most problematic. Other researchers (Barkema et al. (1997), Barkema and Vermeulen (1998)) also confirmed Hofstede's finding that the uncertainty avoidance dimension is more important for FDI projects than other dimensions. Shane (1992) and Dickson & Weaver (1997), however, concluded that individualism is more important. Since the dimensions may vary in importance for particular situations, thus averages may give an incorrect outcome. Similar, Konara and Mohr (2019) show in their study that the KSI has been developed incorrectly both mathematically and empirically. Among other things, they explain problems such as the use of "squared cultural distance" or the lack of triangular inequality as a condition for the distance function.

They suggest using the so-called Euclidean distance formula, which does not give equal weight to the distance differences of the single dimensions. Instead of the arithmetic average, the square root of the sum of the dimensions based on squared differences is taken:

$$\text{Euclidean Distance (Standardized)}_{ij} = \sqrt{\sum_{k=1}^{4} \frac{(I_{ki} - I_{kj})^2}{V_k}} \qquad (2)$$

However, it must be said that this approach has not yet been tested thoroughly and therefore the KSI is still preferred by most international business researchers.

Table 1 lists some studies that have looked at measuring cultural distance. The researchers who conducted the studies between 1988 and 2003 mostly used the KSI, which indicates the predominant use of this method. Therefore, the KSI is also used in the case study of this master thesis to calculate cultural distance.

Table 1 CD Calculation Method 1988 - 2003

Year	Study	Calculation Method
1988	Kogut and Singh	KSI
1995	Cho and Padmanabhan	KSI
1999	Padmanabhan and Cho	KSI
2000	Brouthers and Brouthers	KSI
2001	Vermeulen and Barkema	Euclidean Distance Index
2003	Larimo	KSI

Source: Personal elaboration

3. Effect of cultural distance on the market entry decision

Now that we have a good understanding of what cultural distance means and what different entry options a company has for entering a foreign country, we will look at whether and how the two factors are connected. But before we review various empirical research on this, let's look at a theoretical framework that suggests a link between cultural distance and choice of entry method.

3.1. Institutional Theories in the International Business field

Over the years, many different institutional theories have emerged to explain why companies choose one foreign entry method over another.

Two of the most important and widely used theories are the Uppsala model, also known as the establishment chain, and the Eclectic theory, known as the OLI model. The Uppsala internationalization model developed by Johanson & Vahlne (1977; 1990)describes how companies gradually increase their economic activity in foreign countries. They begin operations in nearby markets and slowly expand further using more aggressive methods. Hollensen (2007) distinguishes four different steps a company takes when entering a foreign market: sporadic exporting, exporting with independent agents, selling through a foreign subsidiary, and manufacturing/production abroad. The eclectic theory was first introduced by Dunning in 1977, to improve existing research about the location of economic activity. The theory shows that if MNEs have different advantages such as ownership advantage (O), location advantage (L), and internationalization advantage (I) they should choose high control ownership with FDI activities. (Andersen et al., 2014).

Hennart (2009) criticizes these two internationalization theories as they assume that multinationals only consider internal resources and assets controlled by the firm when they choose an entry method. They refer to company-specific and country-specific assets. Especially the OLI model assumes that an MNE connects its firm-specific advantages with country-specific or location-specific advantages, which is highly challenged by Hennart. According to him, these theories do not consider that country-specific benefits are not connected to the company and thus cannot be controlled. Hennart recommends a different approach, one that considers country-specific factors separately from company-specific factors.

3.2. Transaction cost theory – a theory that shows a link between CD and entry mode choice

Hennart argues that Transaction cost theory (TCT) can explain the existence and development of MNEs in the best possible way. In the late 1980s and 1990s different scholars started to use transaction cost theory to look for the best entry mode both theoretically and empirically (Gatignon & Anderson, 1988). It is well known that companies pursue profit maximization and should therefore keep transaction costs to a minimum when expanding. The TCT is concerned with comparing the cost of using an external partner in the host country and the cost of internalizing activities. In this sense, it can also be described as the costs that determine whether a company decides in favor of a full control mode or a shared control mode. Transaction costs are search and information costs, bargaining and monitoring costs, or enforcement costs. If for example conditions change and contracts have to be adjusted, adjustment costs arise. Williamson (1981) states that TCT is based on two basic assumptions. First, it is assumed that all parties act rationally, which is impossible since they do business in an incomplete market. It is highly unlikely that participants know exactly every possible outcome in advance. This assumption is called bounded rationality. Secondly, opportunistic behavior is assumed, which means that business partners act in their own interest and do only comply with contractual clauses if they are monitored. With the help of three variables, TCT determines how, and under which circumstances the transaction costs are at their lowest (Williamson, 1988). The first variable, asset specificity, describes the possibility that an asset is of value only if put to specific use and the level of value loss when it is put to an alternative use. Therefore, the party which makes specific investments runs the risk to be exploited by their partner. In this particular situation, if asset specificity is high, an MNE is likely to choose to internalize the transaction. Second, frequency of transactions, describes how often the same transaction has taken place. Williamson argues that with high frequency the transaction should be internalized, which means MNE should go with a Wholly-owned subsidiary. Last but not least, uncertainty describes changes coming from the external environment. Since these changes also have an effect on the relationship between the business partners, increasing uncertainty can also lead to increased transaction costs. Thus, it would be better to choose again a high control mode.

The TCT has been used by many scientists as a basis for their analysis. In examining whether and how cultural distance influences the choice of entry method, TCT is one of the best theoretical frameworks to rely on. Over the years different international business researchers based their work on TCT. Anderson and Gatignon (1986) were the first to study the concept of

TCT in connection with entry mode, followed by Kogut and Singh (1988), Erramilii and Rao (1993), and many others.

Over the years, however, it turns out that TCT offers two different arguments regarding the relationship between culture and entry mode.

On the one hand, it is claimed that cultural distance represents more costs and uncertainty for the entering company. Organizational and administrative costs are also believed to increase as cultural distance increases. In addition, there could be additional costs of meeting other employee expectations (Brouthers and Brouthers, 2001). Kim and Hwang (1992) and Anand and Delios (1997) say that cultural differences may mean that the company cannot obtain the information they need to operate profitably locally, or at least not as quickly as local competitors. In this case, companies prefer a JV over WOS when the cultural distance is large so that they reduce uncertainty and risk. Task coordination can be contracted to a local partner who is familiar with the environment. As a result, transaction costs, such as management costs, no longer lie with the entering firm. The existing knowledge barrier can also be reduced in this way. In addition, a JV also has the advantage of understanding the cultural environment more quickly as well as accelerating the learning process.

On the other hand, it is claimed that it is difficult for the entering company to obtain enough information about the foreign partners to be able to negotiate with them properly. It is claimed that as cultural distance increases, JV costs may be higher than for WOS. First, the market uncertainty that may exist in foreign countries may slow down the implementation of the JV agreement, which involves additional costs. Furthermore, it may not be possible to find a suitable partner as there may be only a few. In this case, opportunistic behavior may occur, which again costs more. Finally, there may be additional costs, such as negotiation costs, if there are problems in the business relationship resulting from cultural differences. Therefore, some scholars say that in this case a WOS is preferred to a JV in order to have sole control over the business and to prevent opportunistic behavior by the local partner (Brouthers and Brouthers, 2001).

3.3 Existing empirical work

Now that we have looked more closely at TCT, which is used as the theoretical basis in most research papers, let's look at empirical work that has examined the relationship between cultural distance and the choice of entry method.

As mentioned before, Kogut and Singh (1988) were among the first researchers to examine the relationship between cultural distance and entry mode choice. In their work, they conducted a

multiple regression test and concluded that cultural factors influence the choice of entry method, confirming the opinion of many other researchers. Their analysis was based on Hofstede's dimension model, although they would have preferred to conduct a company-level analysis of culture had this been possible. Nevertheless, they managed to obtain significant results. "*It is, therefore, all the more remarkable that the strength of the results were found, despite using measures of national cultural attitudes which were developed for other purposes*", according to Kogut and Singh (1988, p.427).

In the following years, more and more researchers tried to study this relationship using the same, similar, or different methods (Gatignon and Anderson (1988), Shane (1992), Padmanabhan and Cho (1996), Barkema and Vermeulen (1997), Anand and Delios (1997) Hennart and Larimo (1998)).

In reviewing the literature, it is interesting to see that there are different, contradictory empirical findings. This is due to the fact that different measurement methods have been used over the years, or that the analysis has been conducted in a specific environment, e.g., in certain countries, or companies that have been tested that only operate in certain industries. In addition, not all entry methods were compared within one study and associated with cultural distance. Most research papers focus on two or three different modes and then explore which method is preferred by MNEs when the cultural distance is high. For example, there are scholars, although not many, who have explored the relationship between cultural distance and the choice between equity and non-equity methods. The more popular approach is to compare only equity methods and analyze which method is chosen in case of cultural distance. For equity methods, a distinction is usually made between joint venture (JV) and Wholly-owned subsidiaries (WOS), based on the classification of Pan and Tse (2000). Some scholars go into more detail and examine the choice between the greenfield method and acquisition. In the following, we will now show examples of some scientific works that have empirically investigated the connection of cultural distance with the entry method.

3.3.1. Equity vs. non-equity-based entry modes

Let's start with two examples of research comparing the licensing agreement as an entry method and equity-based entry methods when cultural distance is present.

In 1992, Kim & Hwang conducted a survey to ask 96 U.S.-based multinationals whether they choose licensing, JVs, or WOS for their internationalization. In doing so, they sent out a questionnaire that included four different categories. In addition to transaction-specific factors

and global strategic factors, they also looked at environmental factors. In this environmental section, among other variables, they took the variable "location unfamiliarity" as a proxy for cultural differences and differences in business practices. They found that location unfamiliarity resulted in a preference for licenses and, in some cases, JVs over WOS. Thus, they at least partially confirmed that licenses are preferred over JVs and WOSs in the presence of uncertainty and inexperience regarding location. However, it should be noted that the variable "location unfamiliarity" is considered to be equivalent to cultural distance, which is questionable. However, the inclusion of other factors, such as certain economic or political differences which are present in the variable, could give a better measure of cultural distance because the purely cultural differences can be better supported.

In 2002, Arora and Fosfuri published a study in which they investigated the factors influencing the choice between licensing or WOS. They surveyed 153 chemical companies partly in North America, Western Europe, and Japan about their expansion strategy during the period 1981 - 1991. They found three factors to have an influence on the choice of the entry methods: cultural distance, the number of potential licensors, and host country experience. Furthermore, some control variables, such as country risk or language similarity, which could have an influence on cultural distance were also included. After their regression analysis, they concluded that there is a preference for license utilization when cultural distance increases and potential licensors are present. Only an increase in the host country experience variable leads to the choice of WOS. According to Arora and Fosfuri, the preference for a license over other entry options is that technological competencies are relatively easy to acquire from potential competitors without having to develop them in-house. However, it should not be ignored that this study only looks at chemical firms, and thus only one specific industry was examined.

Taylor et al. (1999) reached a contrary conclusion. In their study, the authors also compared equity-based entry modes (JV and WOS) with non-equity-based entry modes (franchising/licensing). They analyzed questionnaires completed by 165 U.S. and 178 Japanese companies. Subsequently, they conducted a multiple discrimination analysis in which they evaluated cultural distance as one of the influencing factors. They concluded that, given cultural distance, U.S. firms are more likely to prefer equity-based market entry, i.e., either a JV or a WOS. The results have shown that they are more likely to enter into contractual agreements with countries such as the UK and Canada, and then for countries with greater cultural differences, they choose JV or WOS as their entry method. In contrast, no significant result was

found for Japanese companies, implying that cultural distance does not seem to influence the choice of market entry mode.

3.3.2. Joint Venture vs. Wholly-owned Subsidiaries

Next, let's look at a few examples of academic work on whether JV or WOS is a better option as an entry method when cultural distance is present.

Anderson and Coughlan (1987) first studied how American companies use their distribution channel abroad. Do they prefer independent intermediaries or in-house distribution channels? They used original interview data and developed their own measure with which they then developed a logistic regression model. The results suggested that, in most cases, U.S. companies sell their products through channels that already exist. Usually, when they decide to integrate their own channels into foreign countries, they choose countries that are very similar to the U.S.; developed and industrialized countries. Again, this confirms that high control modes are not the preferred choice in countries that are culturally distant. Anderson and Coughlan argue that managing distribution channels in culturally distant countries may be more difficult because the management techniques would not be so easily transferable. Therefore, it is easier and more cost-effective to hand over this task to local partners, even if this means no longer having full control over the processes. This principle is in line with TCT, as costs such as implementation or managing expenses can be reduced.

Kogut and Singh (1988) performed an analysis using a multinomial logit model to investigate the choice between WOS and JV. In doing so, they analyzed data from over 228 firms that entered the U.S. between 1991 and 1995. They hypothesized in advance that the more distant the entering firm is from the U.S., the more likely it is that it would choose a JV with a local partner. They argued, based on existing literature, that even if there might be conflicts with the local partner and the company has to share control, a JV is a better alternative. They were then able to confirm this hypothesis, according to their analysis they came to a significant result, which states that when the cultural distance increases, so do the use of JVs.

In 1991, Erramilli conducted a study to examine the effect of U.S. service firms' international experience on their choice of host country and entry method in the internationalization process. They hypothesized that less experienced firms would show a stronger preference for foreign countries that are very similar to the U.S., in terms of culture or politics. It is also claimed that

the more experience the company has, the more likely it is to choose a method with more control. Even though the international experience was the main focus of their work, they also addressed the factor of cultural distance and its influence on the entry method. The researchers conducted their analysis using a multiple regression model and came to a significant conclusion. When the host country is far away with an increased cultural distance, American service companies prefer low-control modes, which means that JV is favored over WOS. These findings are consistent with other results reported on firms in the service and manufacturing sector (Davidson (1982), Gatignon and Anderson (1988)).

In 1998, Mutinelli and Piscitello attempted to find empirical evidence to explain the influence of certain variables on the entry method (JV or WOS). In doing so, they did not use TCT as a theoretical basis, as most scientists do, but rather the resource-based view and the competence-based theory. The authors took their data from Italian firms operating in the manufacturing and mining sectors that made foreign investments between 1986 and 1993. One of the key factors was the social-cultural distance, which has been taken into the analysis using Hofstede's model. The results have shown that this factor has a significant influence on the choice between JV and WOS. The greater the cultural distance between home and host country, the higher the probability that a company will choose a JV.

Other empirical studies concluded that in certain situations, companies may prefer WOSs over JVs.

For example, Padmanabhan and Cho (1996) investigated in which they examined the ownership structures of Japanese MNEs in foreign countries. They looked at 839 entries in 36 different countries from 1969 to 1991. Using a log regression model, they came to the following conclusion: "*We find the coefficient of CD, the cultural distance between Japan and the host country, to be positive as predicted and significant at the 0.05 level in the full sample regression*" *(*Padmanabhan and Cho, 1996, p.57). As a result, they conclude: "*This suggests that Japanese firms are more likely to fully own their affiliates in culturally distant host countries than culturally similar ones*" *(*Padmanabhan and Cho, 1996, p.57-58). They justify their result by arguing that the uncertainty in foreign countries and the costs that would be incurred in sharing equity with a local partner would be much greater in culturally more distant countries than in culturally more similar ones. It should be noted here that this rationale is exactly in line with the TCT argument, which is also used as a theoretical basis at various stages in the paper of Padmanabhan and Cho. It was also interesting to see that when the culturally

38

distant host country imposed no or few restrictive characteristics, Japanese companies were even more likely to choose full ownership because they were free to choose. This shows that the laws and other restrictions in the host country could influence the entry mode decision.

A similar conclusion was reached by Erramilli, Agarwal, and Kim (1997), who examined the foreign direct investment projects of Korean firms from 1988-1990. Although the focus of their research was on firm-specific advantages and their influence on the choice of entry method, they included the factor of cultural distance in their regression model. Their analysis found that greater cultural distance and high market potential led companies to prefer full control modes over JV. However, if the foreign distant country has political risks and high government restrictions, the choice is more likely to be JV, which strengthens the findings of Padmanabhan and Cho.

Anand and Delios (1997) also conducted an analysis to investigate the choice between JV, greenfield, and acquisition by Japanese companies. They use the same collected data as Padmanabhan and Cho did for their analysis. In examining their results, they concluded the following: "*The negative sign on cultural distance indicates that JVs tended to be formed in more culturally proximate countries, a result not consistent with Kogut and Singh [1988]*" (Anand and Delios, 1997, p.594). In addition, the analysis showed that Wholly-owned modes are a preferred choice for entry into North America and Western Europe, and JV for entry into Asian markets. This casts doubt on whether cultural distance really has this influence on the choice of entry method, or whether it is also influenced by other factors, such as market development or general country risk.

3.3.3. Greenfield investment vs. Acquisition

Finally, a few more examples comparing greenfield to acquisition are listed above.

Rienda et al. published a research paper in 2019 in which they examined the impact of distance on Indian MNEs' decision between greenfield investments and acquisitions. They collected data from 328 foreign direct investments in 73 countries from 1991 to 2014. Among other distances, such as geographical or administrative, they have also looked at the cultural distance and have performed a binomial logistic regression analysis to test the following hypothesis: "*Indian MNEs prefer to enter the host country through acquisitions when there is a lower cultural distance between India and the host country*" (Rienda et al., 2019, p.5). Thus, they assume that

the higher the cultural distance, the more likely it is that a greenfield investment will be carried out. They justify their statement with the fact that the implementation of acquisitions in other countries or the costs and time required for possible conflict management could be intensified by cultural differences. In addition, there may be a misinterpretation of important information, which slows down and complicates the process. Finally, they were able to confirm their hypothesis, as their analysis revealed a negative and significant relationship between cultural distance and acquisition. This means that Indian MNEs perform acquisitions more in culturally similar countries and prefer greenfield investments when there are major cultural differences with the host country. With this outcome, they strengthen the findings of previous research (Barkema and Vermeulen (1998), Kogut and Singh (1988)).

Similarly, Alon et al. conducted an empirical study in 2020 where they compared the greenfield with the acquisition entry mode. They compared data from 152 Chinese emerging market multinationals (EMNEs), which are present in 26 countries worldwide. Even though they focused the study on examining the effect of governance environment and international experience, they also addressed the cultural distance factor. From their analysis, it can be seen that Chinese EMNEs tend to make greenfield investments when they want to counter uncertainties. Since the researchers compared the uncertainty factor with cultural distance, it can be said that the higher the cultural distance, the more likely the greenfield method is preferred over acquisition.

Martínez-Avella et al. (2022) conducted a study by reviewing the impact of cultural distance and vicarious experience on acquisitions and greenfield investments in Colombia. Vicarious experience means experience obtained indirectly and is explained by the authors as follows: "*This indirect experience is recognized in the literature as a vicarious experience (or vicarious learning) and refers to the information, knowledge, and learning, which arises from the activities of others*" (Martínez-Avella et al., 2022, p.42). For their study, they examined data from 355 foreign companies that entered Colombia between 2007 and 2017. In their analysis, they did not take cultural distance as a single value, as was done in the earlier research, but instead separated it according to Hofstede's dimensions. They examined each dimension individually and together with the factor of vicarious experience they looked at how it influenced the choice of entry method. They performed a regression analysis and came to an interesting conclusion. At first, it seems that cultural distance makes the choice more likely to be an acquisition. However, if you add the factor of vicarious experience, it changes, and the tendency is more towards greenfield investments. Furthermore, it should be mentioned that this

is only true if the cultural distance lies in uncertainty avoidance, power distance, long-term orientation, and individualism. For cultural distance in the masculinity dimension, vicarious distance has the opposite effect. The authors also investigated the reasons for these mixed results and came to the following conclusion. Hofstede's masculinity dimension is most consistent with the values of the business world and competitiveness. This means that if experienced managers see that cultural distance exists in all dimensions, they will notice the one in masculinity the most and see it as particularly risky. They will therefore choose an entry method with lower risk and resource requirements, i.e., an acquisition. However, if they are managers with less vicarious experience, they will not make much of a distinction between the dimensions and are likely to choose the greenfield investment method.

Another study that compared these two foreign direct investment methodologies is Chang and Rosenzweig's study, conducted in 2001. They used a dynamic model to examine sequential entries into the U.S. over the period 1975-1992. The focus of the study was to compare first-time entries with sequential entries. They concluded that the two are not dependent on each other. In addition, they also examined the role of cultural distance and found a positive association with greenfield investments. The entry method is preferred over acquisition as cultural distance increases.

As can be seen from the above examples, researchers were able to provide a significant outcome. However, this is not always the case as there are some scholars who found no significant relationship between cultural distance and entry mode choice.

One example is Brouthers and Brouthers, who conducted their study in 2000. They compared the entry method (greenfield start-up or acquisition) of Japanese companies that expanded into Western Europe between 1980 and 2000. The focus of the work was to investigate the cultural, institutional, and transaction cost influence on the entry method. After reviewing existing literature, they hypothesized that when cultural distance is small, companies choose greenfield ventures. However, their own analysis did not support this hypothesis, as they found no significant relationship between cultural distance and entry mode choice.

Luo Y. came to a similar conclusion in 2001. In his study, he looked at various factors that could possibly influence the choice of entry mode into emerging countries. He primarily used data from a survey carried out in China in the period from 1996 to 1997. Among other factors, he decided to use cultural distance as a control variable. However, according to his analysis,

this led to concerning results. No significant result could be found in relation to cultural distance, indicating that foreign culture has no influence on the choice of entry method. Since this contradicts some existing work, Luo explains these differences like this: "*It thus seems that the relationship between cultural distance and entry mode choice is contextual, depending on the type or nature of a host country economy*" (Luo, 2001, p. 464).

CHAPTER II - RESEARCH METHOD

4. Methodology

4.1. Overview

The objective of this work is to analyze, through a Northern Italian company, the role of cultural distance and its influence on the entry method in the internationalization process. It is necessary to clarify which problems have arisen in relation to foreign cultures and how the company has dealt with them. This multinational company has locations worldwide, such as Germany, Spain, Turkey, the United States, Russia or Brazil, and Argentina. Since the analysis requires countries whose culture is expected to be very different from the domestic culture, the first part of the analysis consists of calculating the cultural distance from these countries to Northern Italy. The first question to be answered is the reason for choosing those countries in their internationalization process. In the end, the value that is created must be greater than the costs that arise, for example, from problems of cultural distance. Next, the methodology used by the company to enter those countries is clarified. A possible connection with the cultural distance is examined in order to subsequently provide a conclusion as to the extent to which these two factors actually influence each other. In the end, the following hypothesis is tested for its validity:

> **H:** A greater cultural distance reduces the likelihood of choosing a high control entry mode with high resource commitment.

The following sections explain why a case study was chosen to test this hypothesis, how the target company was selected, how reliable key information was collected, and the process chosen for the analysis.

4.2. Research Approach

When it comes to data collection for a study, two different methods can be distinguished: quantitative and qualitative research. Both methods help to analyze certain data, but they differ in their approach. While quantitative analysis is based on numbers and measurable values, qualitative analysis is based on personal statements and documents. The former makes it possible to test a large number of participants or data, which can then be easily compared. In addition, clear values or numbers are obtained, which can be used for rating purposes. Qualitative analysis is more about understanding a particular situation. It provides a more in-depth insight into specific situations and helps to solve questions or ambiguities. The table below shows the main features/differences of both methods.

Table 2 Quantitative vs. Qualitative Research

	Quantitative Research	**Qualitative Research**
Definition	comprehensive analysis of a phenomenon	capturing a precisely defined section of a situation
Measurement	standardized measurement	non-standardized measurement to obtain the most detailed information possible
Evaluation	statistical evaluation: analyzing through statistical and mathematical analysis	interpretative evaluation: analyzing through summarizing, classifying, and interpreting
Sample Size	as large a number of cases as possible in order to obtain a lot of information and explain causal relationships	small numbers of cases and more related to the individual case, to be able to go into more depth
Key factors	o Testing o Objectivity o Measurement	o Understanding o Context o Subjectivity o Complexity
Methods	o Experiments o Surveys o Database reports o Questionnaires o Case study	o Case study o Interviews o Documents o Observation o Personal accounts and papers o Literature review

Source: Scribbr Website

4.2.1. Qualitative Research

In the context of this work, qualitative research was chosen because we want to study a specific company and its experience. This method allows us a more precise and deeper analysis, as well as the processing of unexpected findings. Also, there is a lot of academic work that takes hundreds of samples and runs a regression analysis to analyze the role of cultural distance in the internationalization process. Of course, this is a good way to make comparisons and see the tendencies of individual companies, but it never goes into detail. We do know how companies have reacted, for example, which entry mode they have chosen, but we rarely find out why. And that is exactly what this paper is about, analyzing a company's experience with cultural distance and its impact on the internationalization process, respectively the entry method. Therefore, qualitative research was chosen to study this relationship in a contextual way.

It should be mentioned here that the cultural distance is calculated as part of the analysis. This means that a formula, which was already shown in the theoretical part, is used. Even though calculations could possibly be considered a quantitative method, the information that is obtained through interviews or documents still prevails. Another reason to consider this thesis qualitative is the fact that the master thesis is written in form of a case study, which usually falls under qualitative research methods. We will now look at what exactly a case study is.

4.2.2. Case study method

As already listed in the table above, there are different methods to perform scientific research. In the context of this work, a case study was chosen because the focus is on the experience of a company with a current phenomenon.

Hak and Dul (2008, p.41) define a case study as "*a study in which (a) one case (single case study) or a small number of cases (comparative case study) in their real life context are selected, and (b) scores obtained from these cases are analysed in a qualitative manner.*"

For this specific case, a single case study is conducted because the research focuses on only one specific case, i.e., the experience of one company. If there were multiple cases, i.e., multiple company experiences, a multiple case study would be conducted to compare the results. The case study is a research method mainly used in the field of social sciences. The aim is to investigate a specific current phenomenon within a context. For example, the context is the organization or the society in which the phenomenon takes place. This corresponds exactly to the core of this work. The present and observable phenomenon is the market entry of diverse

companies into culturally foreign countries. The influence of foreign culture in the expansion of a single company, in this case, Dr. Schär, makes it contextual. The company provides the context, as the particular phenomenon is only studied there.

There are different ways to conduct a case study, but in this study, we will focus on the approach described by Yin R.K. (2004, 2018) in his book. In the following, we will briefly show the 6 steps according to which Yin conducts a case study (Figure 13):

Figure 13 - Case Study Research: A linear but iterative process

Source: Personal elaboration inspired by Yen (2018)
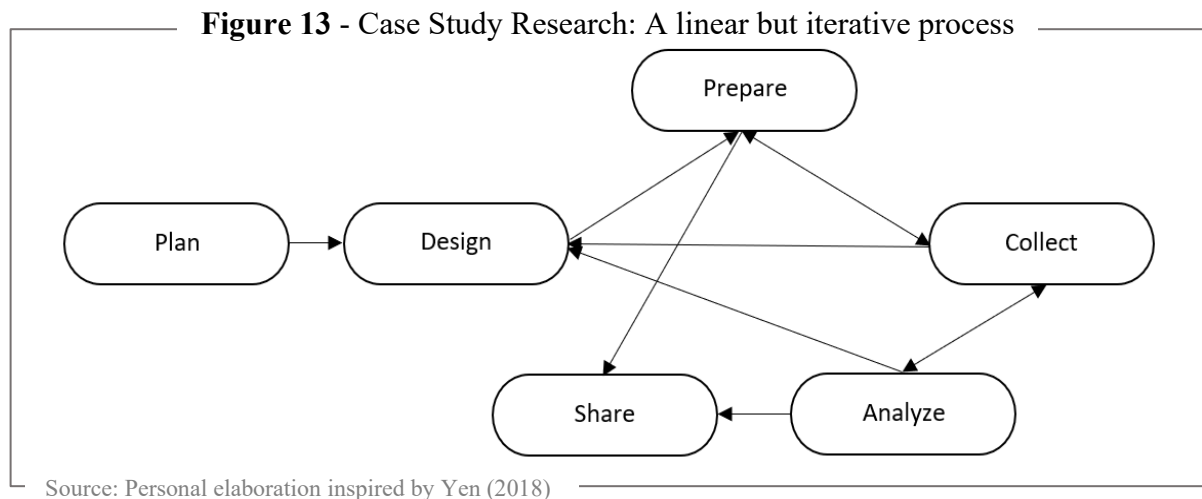
Step 1: Planning the case study

The first step is to explain why a case study was chosen rather than another research method such as an experiment or a literature review. What are the concrete advantages of a case study? Part of the planning is also the formulation of one or more research questions. There are two options here:

- o Case-specific research questions
- o Generic research questions

The first option refers to a specific case, for example, a particular company. The second option, on the other hand, is more of a general nature.

For the elaboration of this thesis, a case study was the best research method, because it focuses on an existing phenomenon and examines it with sufficient detail. One case study is not equal to all case studies. This means that it is very individual, which is good when new information comes up during the research and the method needs to be adjusted. Initially, the idea of a

multiple case study was also considered, but not enough companies were found that were willing to provide information. More detailed information on that will be given below in the section "target selection".

In terms of research questions, they would be case-specific research questions as only one company is the focus of the research. The specific questions that will be addressed in this dissertation are the following:

- o Did the foreign culture play a role in deciding whether or not to expand to another country?
- o Did cultural distance affect the internationalization process?
- o What entry method did the company choose given cultural distance?

Step 2: Designing the case study

The second step defines the case study and shows how it is conducted. The method used to answer the research question should be explained and it should be clear what data is needed for the analysis. Do you get the necessary information by looking into different documents, through interviews, surveys, or observations? Which method is chosen to answer the research question also depends on the possibilities to get the relevant information.

For the case study in this thesis, it was best to conduct interviews, as this was the most successful and detailed way to collect the necessary data. In addition, calculations were carried out which facilitated the conducting of the interviews. It was possible to ask more specific questions about certain areas. How exactly the data was collected is described in step 4 and in the chapter "Data collection" below.

Step 3: Preparing to collect case study evidence

The third step is the preparation for data collection. Yin (2018) divides this step into three different stages that should be worked through consecutively:

1. Literature review
2. Identify data source
3. Acquire data source

The first stage is the literature research, which was already done in chapter 1 of this thesis. Reading a lot and recording the most relevant information is important. In addition, the current

state of research should be represented. If one wants to be even more precise, it can be looked at whether there is a theory, which can explain the study. More precisely, the theoretical background is examined, and the focus is on a theory that facilitates the understanding of the phenomenon to be studied. In the context of this study, the choice fell on the transaction cost theory, explained in chapter 1.3.

The next step is to identify the data sources. How do you get the right data? Whom do I need to contact? Who are my potential interview partners? What company data is important? These are examples of questions to ask ourselves so that we can acquire the right data for the analysis. The third point deals with the acquisition of data, i.e., how to get the data. Requesting company data, contacting archive owners, or sending emails to interview partners are different options to get the data. How the data was obtained, and which potential interview partners responded or did not respond are mentioned below in the "Data collection" section.

Step 4: Collecting case study evidence

The 4th step is about data collection. This can vary from case to case. It is possible to acquire data through interviews, direct observations, document reviews, or archival records. Interviews were selected for this case study, see the "Data Collection" section for more information. In addition, Yin (2018) points out 4 principles that should be satisfied when collecting data and information:

- o Use multiple sources of evidence
- o Create a case study database
- o Maintain a chain of evidence
- o Exercise care when using data from social media sources

After this step, the literature review should be completed and written down.

Step 5: Analyzing case study evidence

The analysis represents the most extensive part of the case study. Yin (2018) recommends that the analysis process should be guided by the following questions:

- o What is the best way to describe the data?
- o Are there any anomalies in the data analysis?
- o Are there any particular patterns present?

Step 6: Reporting Case Studies

In the end, the important or relevant results are filtered out from the unimportant results. If possible, general results should be presented first, followed by specific results. The visual representation, such as the use of figures, should be included along with the explanations and/or tables.

Another part is the discussion of the results, which should be shown at the end. The conclusions of the analysis are also recorded there, as well as a general summary. In this context, Yin (2018) points out that the results of a case study cannot be generalized. The findings of this case study do not infer that other case studies with similar companies will have the same results.

5. Subject of the case study: Dr. Schär

5.1. Target selection

Since the case will be studied based on an MNE's experience with cultural distance in their internationalization process, a pre-screening of potential companies was carried out. The companies had to present the following characteristics in order to be selected as the subject of the study:

- o it should be a South Tyrolean company (Northern Italy);
- o the company had to be an international company, which is preferably present in several countries worldwide;
- o the countries in which the company has established a market position should be culturally different and more distant;
- o it had to be possible to reach the company, as well as have access to the necessary information. This means, for example, finding one or more contact persons and their willingness and availability.

The search for a fitting company turned out to be more difficult than expected, as the selection of South Tyrolean MNEs is limited and only a few of the companies contacted responded, with only one being willing to work together. Consequently, Dr. Schär was selected as the subject of the study because it met all the criteria:

- o it is a South Tyrolean company, with its headquarters in Burgstall;
- o it is an international company; its products are available for sale in over 80 countries worldwide;

- they have sites and/or production facilities in countries that are more distant and whose culture differs from the Northern Italian culture. Examples are the U.S., Brazil, Argentina and Turkey;
- the company was the only one that answered me in a timely manner and assured me of their help. They were also available to answer any further questions or clarifications and always tried to help with any problems.

5.2. Company presentation

Dr. Schär is an Italian multinational company focused on the production of gluten-free products and dietary supplements for nutrition in metabolic diseases. The family-owned company is headquartered in Burgstall near Merano in South Tyrol, a province in Northern Italy.

The company's story began in 1922 when a South Tyrolean family decided to help children in the post-war period. The doctor, Dr. Anton Schär, and his brother-in-law Gottfried Untertrifaller were shocked by the critical health situation of young people and were the first to recognize that specifically tailored food could be the solution. Together they produced a wheat semolina product that helped to counteract the existing calcium deficiency of many people. Over time, this wheat semolina product became more and more popular, and they decided to expand their production with new products.

Several years passed before, in the 1970s, a Merano entrepreneur, Ulrich Ladurner, had the idea to develop a food brand from this product range. This brand should stand for natural and health-oriented production. As business flourished and these foods became more and more popular, new products were added over the years. For example, in 1985 it was possible to buy the first gluten-free pasta. It was therefore not surprising that the company dominated the Italian market in the 1990s. As their name became known throughout Europe, Dr. Schär decided to introduce its products to other European countries as well. But it didn't just stop in Europe; over the years Dr. Schär successively expanded all over the world. Figure 14 shows in which European countries the company is the market leader.

Figure 14 - Schär in Europe - market leader
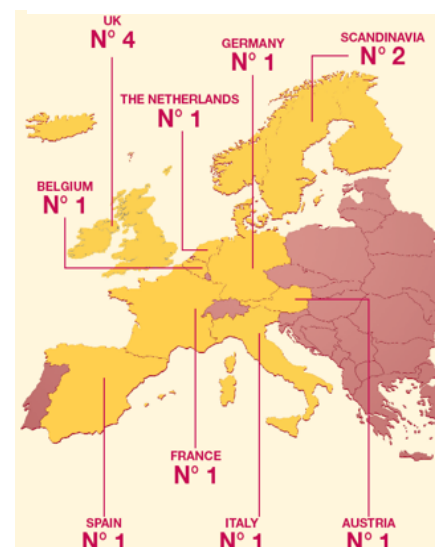
Source: Dr. Schär Presentation

Looking today at the range of products that Dr. Schär offers, there are not only gluten-free items but also a wide variety of nutritional supplements. The company has three areas of expertise:

Dr. Schär Group is the market leader in the field of **gluten-free nutrition**. This diet is important for people who suffer from celiac disease, an autoimmune disorder that causes those affected to be unable to eat foods containing gluten, such as rye or wheat.

In addition, the company has been engaged in the nutritional therapy of chronic kidney failure (CNI) in recent years (**renal nutrition**). Dr. Schär offers a number of products for a low-protein and low-mineral diet that supports the nutritional therapy needed. Their goal is to become the leading food specialist in this sector.
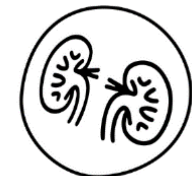
In the last area of expertise, **keto nutrition**, various products are created that contain medium-chain fatty acids fats (MCT fats) and not long-chain fatty acids fats (LCT fats) like the conventional products. MCT fats can be more beneficial than LCT fats in a variety of situations.
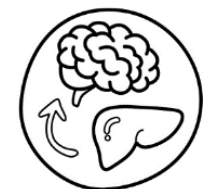
Dr. Schär currently has over 1400 employees and works with many specialists in various fields that go beyond pure product manufacturing. They are part of a large network of research institutes and universities with whom they are in exchange. They themselves have their own research and development team that specialized in innovation in raw materials and new technologies for better products. For example, two scientists of the Dr. Schär team succeeded in developing a new method for the extraction of corn proteins, for which they were awarded the European Inventor Award. Another part is quality assurance, which is a top priority for the company. More than 40 specialists worldwide work to ensure that the quality and safety, of raw materials through to packaged products, meet the highest standards. In addition, the company also has various institutes that deal with the task of knowledge and awareness building, especially on the topics of gluten intolerance and gluten-free nutrition. The international, interdisciplinary team deals with the differentiating aspects of nutritional quality and supports internal and external stakeholders (trade partners, consumers, patient organizations as well as nutritionists and doctors) with targeted information and training services. The company follows the entire life cycle of its products (Figure 15). They are involved in the filiera from seed research to the supermarket, thanks to close collaboration with scientists, farmers, and millers.

Figure 15 - Dr. Schär filiera - supply chain system

Controlled farming → Agricultural network → Product Development based on consumer preferences → Production worldwide

Quality and safety guaranteed by global team ← Network of international nutrition experts ← Broad range of products for day-to-day life

Source: Personal elaboration inspired by Dr. Schär Presentation
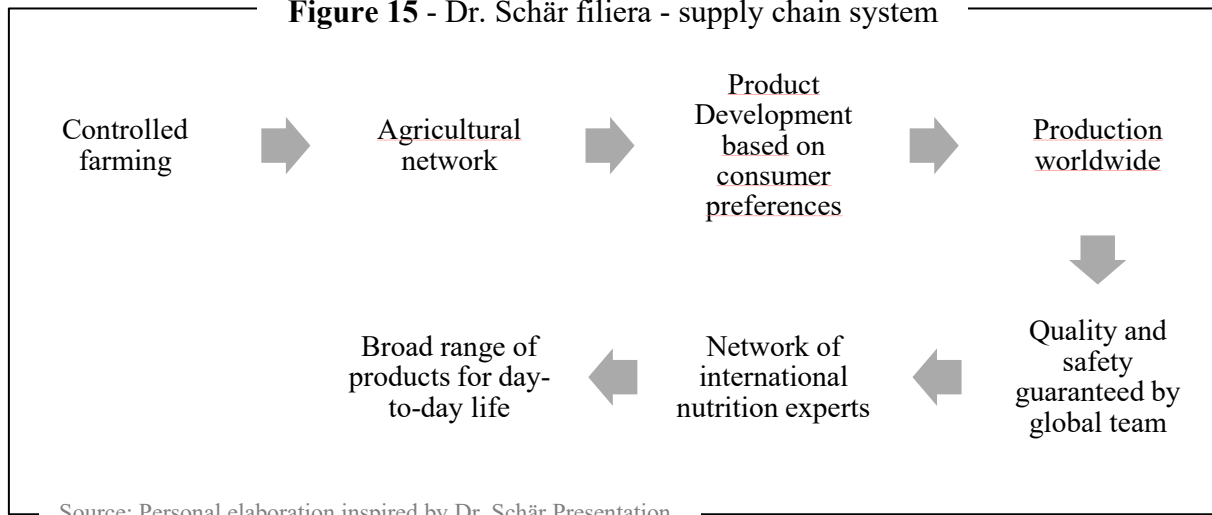
6. Data collection

Yin (2018) suggests that for accurate and credible data collection, it is best to use multiple data sources. After considering various options, it was decided to primarily conduct interviews as this was expected to provide the strongest form of data collection. Interviews were conducted with two employees of the company, one of whom is a long-time employee. The goal was to interview both employees more than once to get the necessary information gradually and provide better data credibility. More detailed information on the selection of interview partners and the carrying out of the interviews are shown in the chapters below.

In addition to the interviews conducted, a PowerPoint presentation was sent to me, which contained important information, such as the annual turnover in the last 20 years or the expansion history of the company. The latter in particular is very important for the analysis of this case study, as it gives a good overview of the company's global growth. Information taken from this PowerPoint presentation was later confirmed by the interviewees, which indicates its credibility.

In addition to the interviews and the PowerPoint, which were the largest sources of information, information was taken from Hofstede's website. This data was used to calculate the cultural distance. This made it possible to determine which country was the furthest away from Northern Italy, which in turn made it easier to conduct the interviews. Since Dr. Schär's products are available in over 80 countries, it was possible to specifically ask about the countries that are culturally furthest away according to the calculations.

Below we will explain how exactly the calculations were carried out, but first, we will describe how the interviews were conducted.

6.1. Conducting expert interviews

Since conducting interviews was the main method used to collect data, the type of interview and the procedure used are explained below.

Expert interviews are a frequently used method of qualitative research. In contrast to other methods, it works with a smaller sample, the interview partners, who provide you with the more in-depth information that could be important for the analysis. In addition, the questions are usually precisely specified, but not the answers, which has the advantage that new insights can be included in the analysis. Before approaching the experts or contacts, several questions should be asked, such as:

- How many interviews should be conducted?
- How long should an interview last?

To ensure that the interview goes smoothly and that no problems arise that can be avoided, you should plan the interview process in advance.

Claussen et al. (2020) have outlined in their book various steps on how best to conduct, record, type, and analyze interviews. That guide was used as a basis for conducting this case study.

Step 1: Project planning

First of all, you should make a plan that shows the most important deadlines. This makes the planning of the interviews much easier, and you have the possibility to include buffer times. Since the interview partners are usually busy people, it can happen that appointments are postponed or even canceled. The earlier you start contacting them, the better. This step also identifies the requirements for interviews. Which interview partners are needed? The right people to interview should be determined by the research interest. Before contacting someone, you should think carefully about why exactly this person is important for the data collection and what questions you would like to ask him or her. Furthermore, a guideline should be created to help conduct the interview without any problems. In the best case, this guideline should be used for all interview partners. It should be clarified in advance whether the interview will take place on the premises or by phone. Furthermore, it should be clarified in which language, how long, and whether an individual or group interview will be conducted. The interview partners should be briefed in advance about the research objective and agree that their answers will be used for the analysis. In addition, it should be clear which techniques and tools will be used for the recording. Is it a video or audio recording? There are several options available, such as

recording a video call or recording using a mobile phone. All these points should be clarified from the very beginning. At the end of the planning, the questions are developed and structured, then sent to the interviewee so that he/she can prepare for the interview.

With regard to this case study, the interview partners were contacted as early as possible, however, for the second partner I had to wait a very long time for a response. This made it difficult to move forward with the work. When the first contact was made, which was via email, it was clarified that the interview would be conducted in German. It was planned that the interview would be conducted via video call, which was also the case with the first interview partner. At the request of the second interviewee, the planned video call was changed to answering questions via email.

Step 2: Conducting the interview

After the planning follows the conducting of the interview. In principle, this step should not be difficult if the planning has been well implemented. The important thing is to follow the guidelines and if there are any deviations, steer the interview back in the right direction. To capture all details of the interview, it is advisable to choose a method that facilitates recording.

Regarding this case study, the video calls were recorded with the cell phone.

Step 3: Transcript of the interview

Transcription is the most time-consuming step because every word of the recording must be written down. Changes in the choice of words are generally not allowed, while slips of the tongue are.

Since the interviews were conducted in German, the transcription was also carried out in German and has not been translated into English. The transcribed interviews can be found in Appendix (A1 and A2).

Step 4: Interview analysis

After the interviews have been conducted and transcribed, the analysis takes place. A good procedure is the qualitative content analysis according to Mayring (2010). In the end, you have different categories, which are ordered according to importance. When presenting the results, it is recommended to work with many tables and graphs. This makes it easier to interpret the results and compare them with the research literature.

6.2. The selection of interview partners

In order to gather the necessary information, you need the right interview partners who can help you along. First, I sent an email to the company's general address. In this email, I briefly introduced myself and explained that I was looking for a company that fit the topic of my master's thesis case study. In this context, I briefly described the topic and asked whether the company would be suitable and if they might be willing to work with me. By suitable we mean whether the company sees itself as a suitable target company and whether it has the necessary information to build a case study. After a few days, a positive response came from Valentina Thurner, a Corporate HR Marketing employee. She assured me that the company would be pleased to help me with my master's thesis. But since she doesn't work in the right office she gave me the contact of Paul Rinner, telling me to get in touch with him as he would be the right contact. Mr. Rinner had been part of the export team at the headquarters in Burgstall for a few years and has been working at the site in Argentina since the beginning of 2022. He was able to give me a good overview of the company's situation in Argentina and Brazil. The topic of foreign culture and how it influences daily business activities were also discussed. Unfortunately, he could not give me all the necessary information, such as the influence of the foreign culture on the internationalization process or, even more specifically, on the entry method. This is because Mr. Rinner has only been working for the company for 4 years and most of the expansions took place before that. However, since it is the information on these expansions that is important, he gave me the contact of his supervisor, Andreas Wenter, in the hope that he could help me. Mr. Wenter has been working for Dr. Schär for over 20 years and has thus been part of the company's growth and expansion. He was able to provide me with the information necessary for the processing of the case study and ,accordingly, for the analysis of it.

As a result, the main data collection was done by means of interviews with two different employees of the company, which are briefly presented below:

- Paul Rinner:

Mr. Rinner is the key account manager for the South America region and has been working for the company since 2018. He was initially part of the export team at the headquarters in Burgstall and has recently been working directly at the site in Argentina. When he was still working in Burgstall, he was responsible for the Eastern European market. More precisely, he closed orders and took care of the logistics for the Eastern European countries. At the beginning of 2022, he

was offered the opportunity to go to Argentina to become a key account manager on-site. Mr. Rinner has about 50 customers, with whom he is in regular contact. He informs them about new products, prices or promotions.

- Andreas Wenter

Mr. Wenter has been with Dr. Schär since 1999 and has always worked in the sales area. In the beginning, he was responsible for the market development in Western Europe, then in Eastern Europe, and at the moment he is co-responsible for development in the Extra-European countries. Now as the director of sales and marketing his main responsibility is export; however, he is also part of the project team that will be established if the company decides to settle in a foreign country.

6.3. PowerPoint Presentation

In addition to the interviews, a PowerPoint presentation was sent to me, giving me some relevant information. Based on some statistics, I was able to get a good overview of the company. Furthermore, the presentation included a list of all countries in which Dr. Schär products are available. In addition, the history of internationalization was presented clearly and concisely using a timeline. Especially the latter was crucial for the processing of the case study.

6.4. Calculations

Part of the data collection was the calculations made to determine which countries are culturally closer and which are culturally more distant from Northern Italy. In order to determine this, it was decided to use the Kogut and Singh Index (1988). An explanation and exact application of the formula can be found in sections 2.3 and 8.2.

7. Visual representation of the research work

Figure 16 shows a visual representation of the process for building the case study.

Figure 16 - Visual representation of the case study development
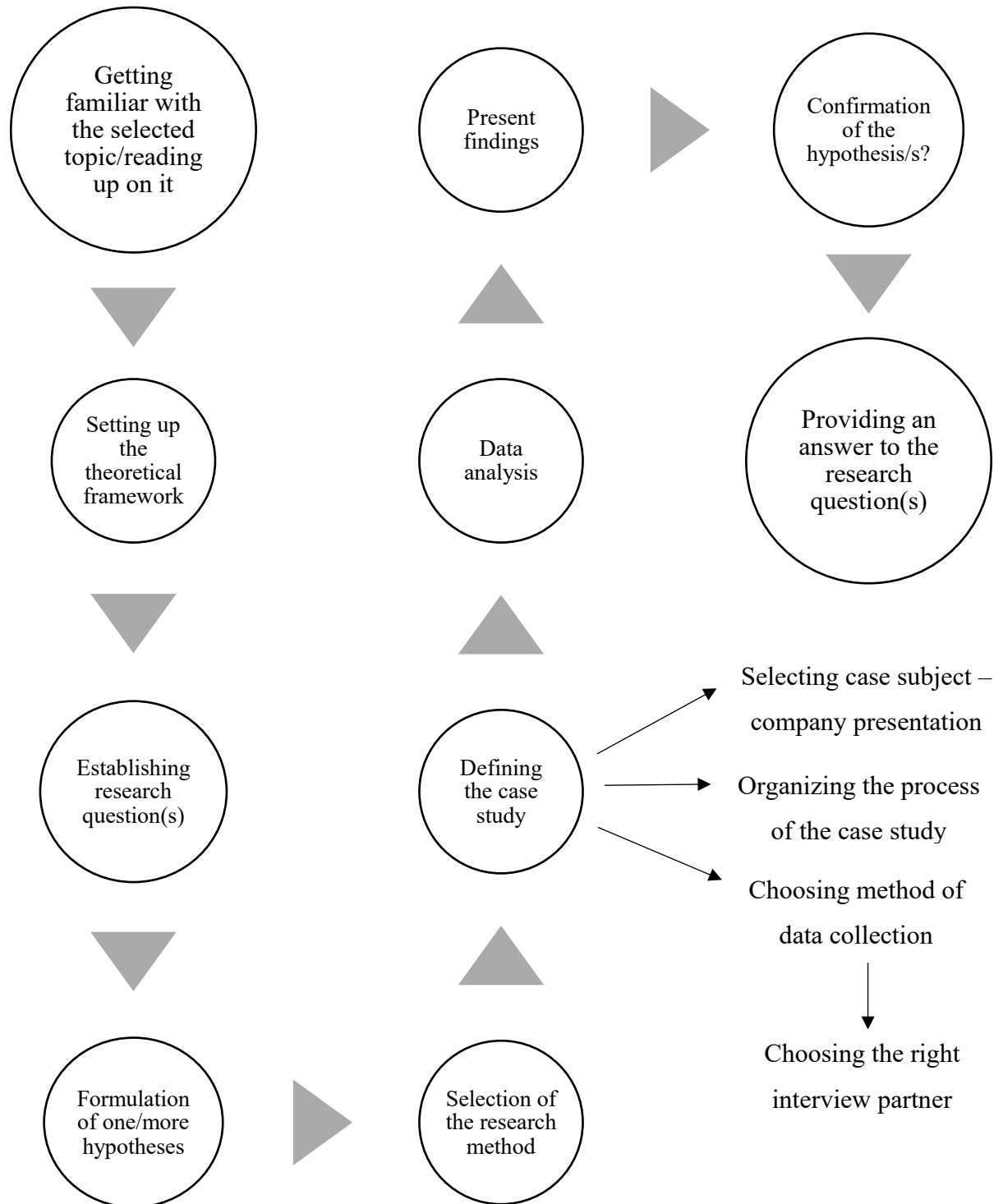
CHAPTER III – EMPIRICAL FINDINGS

8. ANALYSIS

The analysis process starts by looking at Dr. Schär's expansion history. In which countries are the company's products available? Does the company have a location there or even its own production facility? Another point is the cultural distance between Northern Italy and the target countries, which is calculated using the Kogut & Singh Index (1988). It is examined which countries are closer or more distant to Northern Italy according to the index. Thereupon the values are compared and evaluated with the information of Mr. Rinner and Mr. Wenter. In addition, it will be examined to what extent cultural differences have influenced the internationalization process. The situation in Argentina and Brazil will be discussed in more detail, as Mr. Rinner works there and can provide more in-depth knowledge. The last part deals with the analysis of the chosen entry modes into target countries and the possible cultural influence.

8.1. Dr. Schär's expansion history

Dr. Schär is the world market leader in gluten-free nutrition. Their products are available almost everywhere in Europe, North America, many countries in South America, Australia, and in parts of Asia and Africa (Figure 17). In the last 20 years, the company has been able to grow more and more, not only in the expansion of its markets but also with increasing sales. Even in the last few years, which were very critical due to the pandemic, the company was able to hold its own on the world market. In 2020, they were able to generate sales of approximately 419 million euros. As can be seen from Figure 17, Dr. Schär's products are distributed worldwide. In most countries, the products are imported, but there are also countries where the company has a site or even a production facility. In the following, we will take a closer look at the expansion history of Dr. Schär and show in which countries the company has a location or a production facility.

Figure 17 - Distribution of Dr. Schär products
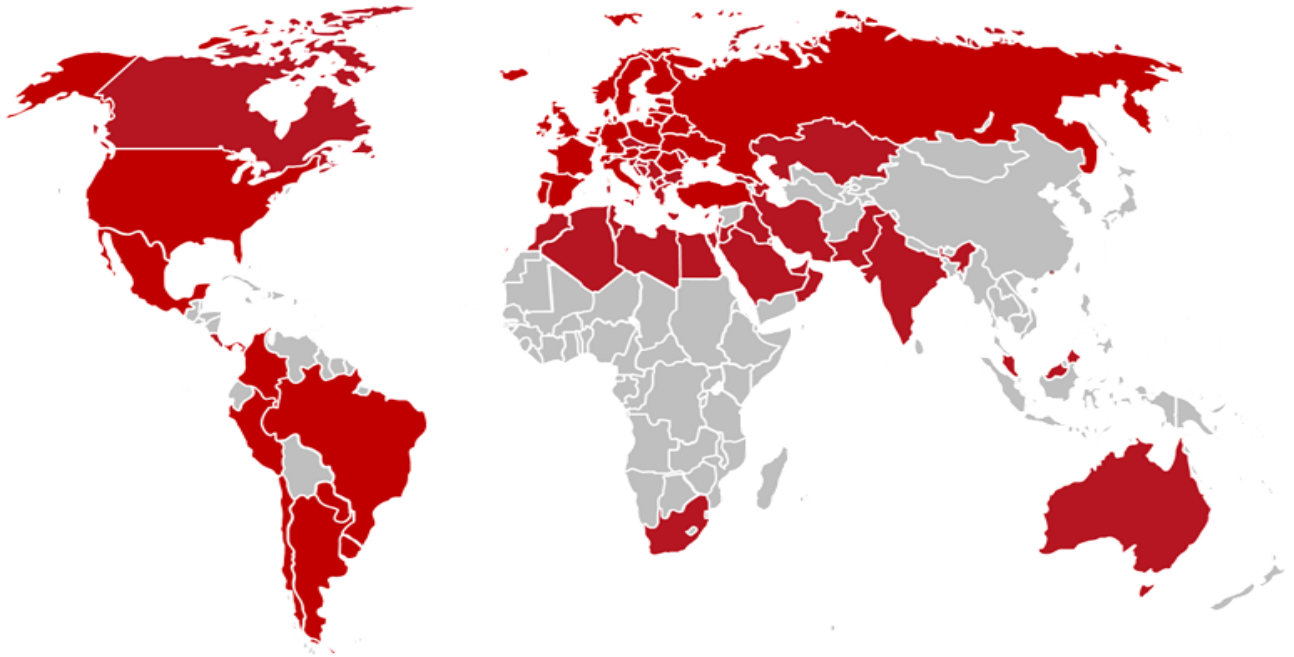
Source: Dr Schär Presentation

- Italy

The story began in 1996 when U. Ladurner acquired a former company building of Jägermeister in Burgstall and established a production facility and the company headquarters. In 2017, the building complex

671 Employees

was renovated and enlarged, and it now houses all the offices where the central functions of the competence areas are located. Next to the offices is the factory where products such as "Schärs Meisterbäcker" bread are produced. In 2012, a newly built production facility in Laives, located further south of Burgstall, began operations. There they specialize in the production of rolls, pizza bases, piadina, and wraps. A year later, Dr. Schär acquired an Italian manufacturer of frozen products and its plant in Borgo Valsugana (Trento province). Gluten-free frozen ready meals and pizza from Bonta d'Italia, a Dr. Schär sub-brand, are produced there. Later, a second plant was built at the same location, where even more gluten-free bread varieties are baked. In addition to manufacturing gluten-free products, Dr. Schär has its own R&D center, which was opened in Trieste in 2003.

- United Kingdom (UK)

The company's expansion began in 2002 with the acquisition of shares in a British company called Nutrition Point Ltd. This added the DS Dietary Specials brand to Dr. Schär's brand portfolio, which later became known as 'DS - gluten-free' in the UK and other European countries. Thanks to this brand, the company managed to achieve market leadership in the UK food retail sector. After belonging to Dr. Schär for more than a decade, the company decided in 2011 to adopt the name of the parent company, also merging the DS - gluten-free brand with the Dr. Schär brand. The company also has a base in Warrington, where a team takes care of sales, marketing, and nutritional advice. In the UK, the company supplies not only food retailers but also pharmacies with Dr. Schär products and Glutafin. At the beginning of 2022, the company acquired the allergen-free fresh bread manufacturer GDR Food Technology Ltd.

73 Employees

- Germany

Dr. Schär first established a presence in Germany in 2006. It acquired the Glutano brand, which was later integrated into the Dr. Schär brand, and the associated production facilities of the company Pauly Biskuit AG. The company, which is located in Dreihausen, Hesse, was restructured to focus solely on gluten-free production. More than 50 different biscuits, snacks, and crackers are produced there, which are then distributed beyond Germany. In addition to the German market, the branch in Dreihausen also serves the markets of the Benelux countries. In the same year, Dr. Schär expanded its production capacity by acquiring the Dreihausen plant and building a new facility in Apolda, Thuringia. This is where they produce gluten-free bread and hamburger rolls for the international market. By establishing itself in the German market, Dr. Schär succeeded in spreading its products throughout Europe.

389 Employees

- United States of America (U.S.)

In 2011, Dr. Schär decided to enter the American and Canadian markets. They founded Dr. Schär U.S. with their sales office in Lyndhurst, New Jersey. Due to increased sales in the American market, a production facility was opened in Swedesboro, also in New Jersey, in June 2012. In 2021, the company planned to expand this production facility as demand for gluten-free bread increased significantly. Also in 2021, the company decided to expand the marketing of its products to Mexico.

102 Employees

- Spain

In 2011, Dr. Schär entered the Spanish market. They took over the local company Natural Aliment Factory S.L., which had already been producing and distributing exclusively gluten-free products. With the acquisition of this company and the associated Beiker brand, Dr. Schär not only succeeded in gaining a foothold in the Spanish market but also significantly increased its production capacity. In the beginning, there were only 45 employees on site who were responsible for the production of bakery products and sales. Over the years, however, the company grew and has now a plant area of over 10,000 m². It was also decided to build a second production facility in 2007. There are now more than 100 employees working for Dr. Schär España S.L.U.

101 Employees

- Austria

In 2014, Dr. Schär once again increased its production capacity by acquiring the former plant of the Austrian baking agent manufacturer CSM Austria. This company announced in 2014 that it would cease production in Klagenfurt and relocate to Germany. Dr. Schär bought the production facility and allowed the ex-employees of CSM Austria to join Dr. Schär. Today, the plant produces certain flours and premixes for the company. There is also a highly innovative technical center, which has been used for research and development since 2017. Employees and specialists test newly developed recipes there and define the parameters of their process before they go into manufacture.

33 Employees

- France

In 2016, the company decided to open a sales office in Lyon, France. There, efforts are being made to ensure that the products and the brand of the Dr. Schär Group become better known throughout the country.

21 Employees

- Brazil

Dr. Schär first entered the Brazilian market in 2011 when it opened its own location in Curitiba. The main task was to market and distribute Dr. Schär products locally. 6 years later, the company acquired Beladri, one of the best-known Brazilian manufacturers of gluten-free food. In 2018 after some reconstruction work was carried out, it was possible to produce bread for the first time in the production facility in Campo Largo. Furthermore, a laboratory was built in which analyzes are carried out that will be used for the production of Dr. Schär's products. The goal of the new

49 Employees

location in Campo largo is to produce not only for Brazilian customers but also for other South American markets.

- Argentina

In 2019, the company decided to enlarge its international partnerships. Among other things, it was decided to establish a sales office in Argentina. In this sales office, which is located in Olivos, Buenos Aires, employees will work on the development of the local market and help expand the Dr. Schär brand throughout South America.

6 Employees

- Russia

Another sales office of the company is located in the Russian capital Moscow. This location is the smallest, 2 employees are on-site and take care of the marketing of Dr. Schär products. The focus here is on the area of special foods for the healthcare sector. They work with healthcare professionals and specific patient groups not only in Russia but also in other countries that are part of the Eurasian Economic Union.

2 Employees

- Turkey

As previously mentioned, the company decided to establish itself in more countries in 2019. In addition to Argentina, they also decided to go to Turkey. Dr. Schär has taken over parts of the Turkish brand "Glutensiz Ada" whereupon it was decided to rename the company Dr. Schär Turkey A.S. Both Dr. Schär products and Glutensiz Ada products were distributed. In early 2020, the acquired production facility was expanded to produce a bread and flour line locally.

35 Employees

To sum up, Dr. Schär has 18 locations in 11 different countries worldwide. Figure 18 shows where the company has a site and which countries have an additional production plant.

Figure 18 - Dr. Schärs sites and/or production plants worldwide

Source: Dr Schär Presentation

8.2. Cultural distance between Northern Italy and the target countries

Now that we have seen in which countries Dr. Schär has a location, let's examine how far away these countries are. More specifically, let's examine the cultural distance between each country and Northern Italy, the location of the company's headquarters. To calculate cultural distance, we use the method of Kogut and Singh (1988), which is based on Hofstede's model. As already mentioned in the theoretical part, this method is criticized by many scholars, however, it is still the most widespread and most used method. For this reason and the lack of equivalent alternatives, the Kogut and Singh Index (KSI) was chosen to measure cultural distance. In the following, we show the formula that we need for calculating the KSI:

$$KSI_{ij} = \sum_{k=1}^{4} \left(\frac{(I_{ki} - I_{kj})^2 / V_k}{4} \right) \quad (1)$$

A detailed description of the index and the application method of the formula were given in section 2.3. Using the formula, it was possible to calculate the cultural distance, however, it only includes four dimensions of Hofstede's model and not all six. In fact, it would be possible to extend the formula to all six dimensions, but this proves to be complicated. This is because not all data are available for all countries for the last two dimensions (Indulgence and Long Term Orientation). Even though these countries are not needed for this analysis, it still presents

63

a problem. For the calculation of the index, the variance of each dimension is computed. The variance must represent the variance of all countries and not only of the two countries studied. This means without the dimension values of all countries, the variance cannot be calculated. For this reason, only the original four dimensions are considered, since there are all values available on Hofstede's Website.

In the following, the individual indexes are calculated to examine which countries are culturally most distant from Northern Italy. All values for the different dimensions of each country were taken from the publicly available Geert Hofstede website. The variance, which is needed for the calculation of the KSI, was calculated in a separate Excel spreadsheet. Let's start by measuring the cultural distance between Northern Italy and the United Kingdom (UK).

Table 3 Italy - UK

	Power Distance	**Individualism**	**Masculinity**	**Uncertainty Avoidance**	**KSI / CD**
Italy	50	76	70	75	
UK	35	89	66	35	
VAR	431,83	477,04	339,61	459,80	
KSI	0,13	0,09	0,01	0,87	**1,1**

Source: Personal elaboration

As can be seen in Table 3, Italy's value for PD is relatively central. A value around 50 shows that equality and decentralization of decision-making and power are generally favored. The young population in particular prefers an open style of leadership and rejects surveillance. Also note the high score for individualism, which rejects, even more, the aspect of control and surveillance. The UK, on the other hand, has a lower PD value. With a value of 35, society rejects inequality and favors fairness. Studies show that the PD value of the upper class of society is lower than that of the working class. Another major difference can be found in the uncertainty avoidance dimension. Italy has a score of 75, which means that Italians do not feel comfortable in uncertain and unclear situations. A high value is placed on formality and detailed planning. This value, in combination with an equally high value of masculinity, shows that everyday life can be stressful or difficult under certain circumstances. Furthermore, this often explains the emotional state of people, which can be shown in Italians through passionate body language. The UK, on the other hand, has a rather lower value. This means that people like to

live from day to day and change their decisions more often depending on new information they obtain. Unlike the Italians, they feel comfortable in ambiguous situations and do not need many rules. In terms of work, this means that there is no detailed planning and processes are very flexible. Creativity and innovation are particularly important to them. In the end, dimensions were assessed and weighted, the result was a KSI of 1.1.

Table 4 Italy - Germany

	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	KSI / CD
Italy	50	76	70	75	
Germany	35	67	66	65	
VAR	431,83	477,04	339,61	459,80	
KSI	0,13	0,09	0,01	0,05	**0,2**

Source: Personal elaboration

In Table 4, we see Germany's scores and have a direct comparison to Italy. Similar to the UK, Germany has a rather low PD value. The country is strongly decentralized, and co-determination rights are very extensive. Control is also not welcome in the entrepreneurial sphere; clear leadership based on competence is demanded. In the other dimensions, there is not much difference from Northern Italy, which is why the calculation of the KSI resulted in a relatively low value (0.2).

Table 5 Italy – U.S.

	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	KSI / CD
Italy	50	76	70	75	
U.S.	40	91	62	46	
VAR	431,83	477,04	339,61	459,80	
KSI	0,06	0,12	0,05	0,46	**0,68**

Source: Personal elaboration

Table 5 compares the values for Northern Italy with those for the U.S. Only one dimension shows a significant difference. Where Italy has a very high uncertainty avoidance score, the U.S. has a below-average score. A value of 46 means that Americans have no difficulty with

uncertain situations. They are in favor of new ideas, especially in the area of product development and technology. Being different from the others and being brave enough for something new is popular among Americans. They do not demand many rules, as this may restrict their lifestyle and their valued freedom of expression. However, past events, such as 9/11, have made this increasingly critical. Therefore, Americans highly value the Secret Service and other security organizations. Due to the large difference in the uncertainty avoidance dimension and the small differences in the other dimensions, the KSI is 0.68.

Table 6 Italy - Spain

	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	KSI / CD
Italy	50	76	70	75	
Spain	57	51	42	86	
VAR	431,83	477,04	339,61	459,80	
KSI	0,03	0,33	0,58	0,07	**1**

Source: Personal elaboration

Table 6 shows the differences in values between Northern Italy and Spain. There is a significant difference in the Individualism and Masculinity dimensions. Spain shows a significantly lower value in the area of individualism than the majority of other European countries. One might think that Spain is more collectivist, but this is only true if the focus is on the countries within Europe. In relation to the world, Spain is classified as more individualistic. The reason that Spain has a lower score than other countries in Europe is that they are considered very open and friendly in the eyes of non-European countries. Conversations with other countries are often blunt and aggressive. Spanish people enjoy working together and are often self-motivating, so there is little need for pressure from authorities such as the company's management. Another difference is in the scores for the masculinity dimension. Spain has a score of 42, which means that a lot of emphasis is placed on harmony and balance. The more feminine country builds on empathy and readiness to help and rejects polarization and inequality. The differences in the two dimensions result in a KSI of 1.

If we look at the values of Northern Italy and Austria, we see a significant difference in the first two dimensions (Table 7). Austria has a very low value (11) in the power distance dimension, more precisely it is the lowest value worldwide. This means that Austrians demand factors such

as equality, independence, justice, and freedom. In the business environment, there is a direct and interactive communication process; too many rules and controls are rejected. Even if the situation in Northern Italy is similar in certain points, such as the desire of younger generations for equality and open communication as well as the distribution of power, the difference compared to Austria is clearly evident in the values. Overall, Italy has a score of 50, compared to a lowly 11.

Table 7 Italy - Austria

	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	KSI / CD
Italy	50	76	70	75	
Austria	11	55	79	70	
VAR	431,83	477,04	339,61	459,80	
KSI	0,88	0,23	0,06	0,01	**1,2**

Source: Personal elaboration

Another difference can be found in the individualism dimension, where the situation is similar to the dimension of power distance. Both countries can be considered individualistic. However, the value for Austria is more in the middle, whereas the value for Northern Italy is very high. Italians prefer a loose social structure in which the individual should "only" care for himself, his family, and his closest circle of friends. Particularly in the north, in the larger cities, the focus is on pursuing personal goals and the happiness that comes with it. In Austria, it is similar; increasingly visible among younger generations. The large differences in the two dimensions result in a KSI of 1.2.

Table 8 Italy - France

	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	KSI / CD
Italy	50	76	70	75	
France	68	71	43	86	
VAR	431,83	477,04	339,61	459,80	
KSI	0,19	0,01	0,54	0,07	**0,8**

Source: Personal elaboration

Table 8 compares the values of France and Northern Italy. The two countries have relatively equal values, except for the masculinity dimension. The difference there is almost 30 points. As mentioned above, Northern Italy is more masculine, having a value of 70, while France is more feminine (43). Among other things, this "feminine" can be explained by the French welfare system. This system is built on a good quality of life. The population is expected to work only five days a week and no more than 7 hours a day. A difference can also be seen between the classes of the population. While the working class is considered more masculine, the upper class is seen as feminine. The difference with Northern Italy in terms of the masculinity dimension is the primary contributor to the KSI resulting in 0.8.

Table 9 Italy - Brazil

	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	KSI / CD
Italy	50	76	70	75	
Brazil	69	38	49	76	
VAR	431,83	477,04	339,61	459,80	
KSI	0,20	0,76	0,33	0,00	**1,3**

Source: Personal elaboration

In Table 9 we can see the values of Brazil as well as the direct comparison with those of Northern Italy. It is striking that there is almost no difference in the last dimension, the uncertainty avoidance dimension. The other dimension values show a difference, especially in the Individualism dimension. There we have a difference of just under 40 points. As mentioned before, Italians are strong individualists. Brazilians, on the other hand, advocate a strong cohesive society; loyalty is very important to them. They must be able to rely on others, especially family. There is a dependency relationship between groups in which loyalty and protection are valued. The differences in this dimension, as well as the small differences in the first and third dimensions, let us calculate a KSI of 1.3.

In Table 10 we can see the values of Argentina. If we compare them with Italy, we see the first dimension is very similar, as well as the last one. The only major difference between Argentina and Italy is in the individualist dimension, similar to Brazil. However, the difference was much greater there. This is because although Argentina has a score just below 50, if you compare it with other Latin American countries, Argentina is the most "individualistic" country. This is

probably due to the early waves of migration that affected Argentina and the early establishment of the middle classes in the nation. Since the difference to Italy in this dimension is not as high as for Brazil and Italy, the overall KSI is 0.7.

Table 10 Italy - Argentina

	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	KSI / CD
Italy	50	76	70	75	
Argentina	49	46	56	86	
VAR	431,83	477,04	339,61	459,80	
KSI	0,00	0,47	0,14	0,07	**0,7**

Source: Personal elaboration

Table 11 Italy - Russia

	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	KSI / CD
Italy	50	76	70	75	
Russia	93	39	36	95	
VAR	431,83	477,04	339,61	459,80	
KSI	1,07	0,72	0,85	0,22	**2,9**

Source: Personal elaboration

If we compare the values between Northern Italy and Russia, we see a large difference in almost every dimension (Table 11). On the first dimension, the power distance dimension, we see the greatest difference in value. Northern Italy is positioned in the middle, with Russia showing an exceptionally high value. Russia has a clear distribution of power, and those in power are kept far apart from society. Clear rules and laws are announced; in the entrepreneurial sphere, the top-down approach usually prevails. Russians are also different from Northern Italians in the second dimension. Russians are not individualists; their family is very important to them. Establishing the right relationships and maintaining them is usually the only way to succeed. Trust and patience are two very important factors. In the third dimension, the low value for Russia is noteworthy. Although one would think that this country is rather masculine, the existing modesty of the middle class makes the country rather feminine. Dominant and

conceited behavior is only accepted among the high class, otherwise, it is condemned. Calculating the cultural distance between Northern Italy and Russia, we obtained a KSI of 2.9, which is the highest KSI so far.

Table 12 Italy - Turkey

	Power Distance	**Individualism**	**Masculinity**	**Uncertainty Avoidance**	**KSI / CD**
Italy	50	76	70	75	
Turkey	66	37	45	85	
VAR	431,83	477,04	339,61	459,80	
KSI	0,15	0,80	0,46	0,05	**1,5**

Source: Personal elaboration

Table 12 shows the values for Turkey. Similar to Russia, Turkey is a collective country, which we can see from the low value for the individualism dimension. The community as a whole is important here as well. Conflicts within the community, but even more so with the outside world, are not welcomed, and attempts are made to maintain harmony at all times. Another big difference is in the masculinity dimension. Another big difference is in the masculinity dimension. Here, again, we see a similar situation as with Russia. Turkey scores 45, which is classified as feminine. Conflicts are avoided, and everyone tries to live in harmony and sympathy. They put a lot of emphasis on a good work-life balance, as time with family and friends is important to them. If we calculate the differences between Turkey and Italy in the four dimensions, we get a KSI of 1.5.

Now that the cultural distance to Northern Italy has been calculated for all countries in which Dr. Schär has a site, the results are summarized in Table 13. In this way, it can be seen which countries are culturally most distant from Northern Italy according to the KSI. The values are ordered by descending KSI.

Table 13 Countries with a branch and the CD to Northern Italy

	KSI / CD
Italy - Russia	2,9
Italy - Turkey	1,5
Italy - Brazil	1,3
Italy - Austria	1,2
Italy - UK	1,1
Italy - Spain	1
Italy - France	0,8
Italy - Argentina	0,7
Italy – U.S.	0,7
Italy - Germany	0,2

Source: Personal elaboration

As we can see from the table, Russia is by far the farthest away from Northern Italy. Turkey is half the distance away, followed by Brazil. What stands out is Austria in fourth place, since here you might think that the country should be much closer culturally, because it is geographically close to Northern Italy. Countries like Spain, France, Argentina, and the U.S. are all about the same distance from Northern Italy. In last place, the country that is culturally closest to Northern Italy is Germany.

Since we know that Dr. Schär's products are also present in other countries, we calculate for some of them the cultural distance to Northern Italy. Countries have been deliberately chosen from which it would be expected that they are culturally more distant. Initially, the intention was to include countries such as Oman, Saudi Arabia, or Morocco, but unfortunately, there were either no publicly available values, or the values were only estimated and not confirmed. Table 14 shows the ten countries that are culturally most distant from Northern Italy. It is interesting to observe that this includes, on the one hand, the northern European countries (Sweden and Norway) and, on the other hand, the more distant countries in the East (Malaysia) and in the West (Panama and Chile). The reason why Sweden is ranked first is the big difference with Northern Italy in the scores of the masculinity dimension and the uncertainty avoidance dimension. Sweden has the lowest masculinity dimension score (5) in the world, followed closely by Norway (8). These two countries are clearly feminine, implying that they focus on the quality of life. It is important for them to have a good work-life balance, with plenty of free

time and flexible working hours. In Scandinavian countries, equality and solidarity are very important; characteristics such as condescending behavior or envy are not welcome. In the uncertainty avoidance dimension, Sweden also shows a strong difference compared to Northern Italy. Where Italy has a value of 75, Sweden can only show a value of 29. This means that Swedes are generally more relaxed about unknown situations and more flexible when it comes to rules and norms. Norway has a higher value than Sweden in this dimension, which means that the country is a little closer to Northern Italy in terms of culture.

Table 14 Export countries and the CD to Northern Italy

	KSI / CD
Italy - Sweden	4,5
Italy - Panama	4
Italy - Malaysia	3,9
Italy - Norway	3,4
Italy - Chile	2,9
Italy - Kazakhstan	2,9
Italy - Portugal	2,8
Italy - Romania	2,7
Italy - Slovakia	2,7
Italy - Libya	2,4

Source: Personal elaboration

The table also shows other European countries with a high KSI. As well as a few Eastern European countries (Romania and Slovakia), Portugal is also included. It is interesting to note that this country is very different from Spain in terms of CD, even though the two countries are neighbors. Panama, Malaysia, and Chile also have a very high index, but these are very far from Northern Italy. All three countries have a very low individualism score, making them very different from Northern Italy. Collectivist societies place a lot of emphasis on tradition and loyalty within the group. Family is above everything and responsibility to others is demanded. In the business sector, the employer-employee relationship also tends to be more familial. Malaysia and Panama also have a very high power distance, which implies a hierarchical society. Inequality and centralization of power are given, and people look up to authoritative leaders.

If we look again at Table 14 and compare it with the values in Table 12, we see a big difference in terms of KSI. 9 of the 10 countries where Dr. Schär has a local site have a very low value compared to the countries where Dr. Schär exports. Except for Russia, where there is a very high cultural distance from Northern Italy, all values are less than or equal to 1.5. This raises the question of whether the company may have decided against a local site because of the greater cultural distance, as this would involve more risk. In order to answer this question, let us now look at the extent to which the foreign culture has influenced the internationalization process of the company.

8.3. Cultural differences and their influence on the internationalization process

Mr. Wenter argues that internationalization projects are always very individual and depend mainly on the entrepreneur or decision-making management. Dr. Schär is led by an entrepreneur who is very open to new internationalization projects. He is also willing to take more risks because the step to open a new branch is mainly a question of risk. Talking here about a new branch in a foreign country, we mean a local setup or purchase of a facility or an office. A normal export is not associated with large investments and also involves less risk. This information is consistent with what scientists like Lou et al. (2011) have already found. If more control over the business is desired and hence an equity-based method is chosen, this also entails more risks.

Dr. Schär in Argentina and Brazil

The internationalization process for Argentina and Brazil will now be examined in greater detail. This is due to the fact that Mr. Rinner works from there and was able to answer more specific questions about these two South American countries.

The decision to establish a local presence in Brazil and Argentina has to do with two main factors: first the theoretical market potential for Dr. Schär's very specific products and second the difficulty to find suitable importers or distributors there. For point two this is due to the fact that it is very risky for local companies to buy imported goods in foreign currency and to sell them sustainably because the local currencies are sometimes subject to strong fluctuations, there is inflation and generally little stability, i.e., in order to finance a strongly growing business, you need relevant resources in foreign currency. Argentina in particular has a major inflation

problem. For example, this year in 2022 there is estimated inflation of 70 to 80 percent. Only Venezuela has an even higher inflation rate, at around 115 percent. Argentina has had such a high inflation rate for years; the country has been in crisis for a long time. For the company, it is best if Argentina pays the bills to Italy as soon as possible. Otherwise, the money will quickly lose its value. However, this is also the case in other countries. The Turkish lira is also relatively unstable as a currency. The ruble is quite strong at the moment, due to the ongoing crisis. Let's explain this problem with the help of an example: the customer buys a container in January; this takes about 6 weeks until it is in the country due to the transport and customs clearance; then you need about 1 month of storage on site for the products and only then the goods are sold to the customers who often have up to 2 months to pay. So, the distributor only collects in June but has to pay Dr. Schär in March at the most (Mr. Wenter).

In South America, there was a fundamental problem with imported products. The company had very high costs and the situation with the containers was also very problematic. From the moment of sending an order to Italy, two months pass before the products arrive in South America. Plus, in the food industry, the products have a 4 to 5-month sell-by date and getting them to the customer is very difficult. In addition, there were also quality problems because the products were damaged by the long journey.

In both Argentina and Brazil, the company had smaller, specialized importers who practically only marketed the Dr. Schär brand and neither had the necessary financial background to finance the growth. For this reason, the company has taken over both importers and established them as the basis for the local branches, including taking over the personnel. In Brazil, the decision was made in 2017, when the company acquired Beladri, one of the best-known Brazilian manufacturers of gluten-free food. In Argentina, the sales office was established in 2019.

The company often does it this way, buying up former importers and moving production there. Since Brazil also has a production facility, certain countries are supplied from there. For example, Argentina buys bread directly from Brazil. Currently, 80% of the products are still from Italy, but the idea is to directly get the products from Brazil. The advantage of this approach is being more local and being able to act more quickly. Products are also shipped to Uruguay and Chile, where an importer distributes the Brazilian products.

Cultural challenges certainly play a considerable role in the risk assessment of an investment like that of a new settlement. The company estimates the cultural difference between these two countries and Northern Italy as manageable compared to other emerging markets, as they already had experience with establishing branches in Spain and France. Mr. Wenter states that a foreign culture can certainly be a knockout criterion, whereby in his opinion it plays a role whether a company has familiar employees in its ranks who know the foreign culture and know how to operate there. The company focuses on the right selection of employees in its internationalization projects, i.e., they make the success of such a project largely contingent on the right selection of employees on site.

In terms of foreign culture, the previous calculations of KSI have indicated that Brazil is culturally more distant than Argentina. The company itself can only partially confirm this. For example, when it comes to the foreign language, which is important for day-to-day business activities, there were or are no problems in Argentina. The company has some employees who have a perfect command of the Spanish language. In Brazil, on the other hand, everything is handled in English. Here, too, there are no significant problems, even though speaking the world language is not the same as using the native language locally. Mr. Rinner, who is currently working in Argentina, can confirm that doing business is easier when Spanish is spoken. This is due to the fact that although the Argentinean society is also learning English at school, they are not at the same level. So, it is definitely an advantage to know the Spanish language. In terms of religion and lifestyle, the company does not see much difference between the two countries. In addition, the South American countries maintain a lifestyle very similar to that of the Southern European countries, which helps the company, as they have had experience in doing business there for a longer period of time. In terms of society and its prosperity, there are small differences between the two countries. This is due to the fact that Brazil has much more inhabitants and therefore has large social differences. These social classes have a certain spending capacity. The company's products appeal to the upper middle class, which is small compared to other countries. Argentina, on the other hand, has a better-developed middle class in relation to its population. In this context, the company speaks of "economically relevant". Since Argentina has a broader middle class than Brazil, the country is more economically relevant. In terms of social norms and behavior, the two countries are very similar to Southern Europe. Similar to the lifestyle, the mannerisms of society are comparable to those of southern France or southern Italy. However, the company observed that the productivity of employees is lower compared to Europe. A massive problem, according to the company, was bureaucracy, which was also classified as a major risk component. For example, problems arose when the importer in Argentina was taken over. The transition process from Free Gluten to Dr. Schär

Argentina was relatively complicated because the country is very bureaucratic. . Rinner mentioned that it was a lot worse compared to Burgstall. Generally, in South America, countries are very bureaucratic, and life is made extremely difficult. This is because each country in South America requires certain procedures and has its own guidelines. For example, each country requests certain packaging. So, Dr. Schär cannot produce uniform packaging for all South American countries because each country requires an additional label. The state specifies this law and if there are even small deviations, the packaging must be redone (Mr. Rinner).

As described, bureaucracy is the biggest problem in the two South American countries. However, since the company had already gained a lot of experience, this was not too much of a problem. Mr. Wenter thus estimates the cultural distance of the two countries as rather manageable and said that it had no significant influence on the internationalization process. According to him, what makes a project successful for the company is accurate preparation as well as the selection of familiar and trustworthy employees.

8.4. Dr. Schärs entry mode choice

In order for us to examine whether cultural distance influenced the company's choice of entry mode, we will first look at how Dr. Schär entered foreign countries.

Table 15 shows again the countries where the company has an administrative office or an additional production facility. We can see that for almost all countries export was chosen as the mode of entry. The only exception is the U.S., where the company entered through a WOS, or more precisely, an Acquisition. The company justifies this by saying that in the case of the U.S. it was already clear that the market was a given, but they simply had not found a suitable importer. Therefore, they started from scratch and founded a new company there in 2011. However, since finding suitable distributors in the other nine countries was not a problem, they chose to export as an entry mode. This method limits the risk because it requires less investment and still allows the company to see whether the market for the product range picks up or not. It gives the business an opportunity to gain experience, test price elasticity, and learn about the local food culture.

Table 15 Dr. Schärs entry mode choice

Target country	KSI	Entry mode
Russia	4,5	Export
Turkey	4	Export
Brazil	3,9	Export
Austria	3,4	Export
UK	2,9	Export
Spain	2,9	Export
France	2,8	Export
Argentina	2,7	Export
U.S.	2,7	WOS (Acquisition)
Germany	2,4	Export

Source: Personal elaboration

Export has given Dr. Schär a good opportunity to absorb and learn the local market conditions and certainly also the cultural characteristics of a market. According to Mr. Werner, this also includes the local legal conditions such as customs and bureaucracy, packaging requirements, or the distribution landscape. The latter means which different distribution channels exist and how exactly they work. In the case of Dr. Schär, these are mainly supermarket chains. In particular, you can see whether the assortment has potential or whether there is less demand. This also has a lot to do with food culture, i.e., do the products taste good to consumers in a target country?

In principle, the company always chooses to export to a foreign country first, as it is the entry mode with the lowest risk. Of course, higher-risk variants are also considered. Risk, however, is always a factor that the company prefers to reduce rather than increase because it always involves investment in time, all kinds of effort, and financial resources.

8.5. Cultural distance and its influence on the entry mode decision

To analyze the extent to which the foreign culture had an influence on the company's choice of entry, let's look again at Table 15. Just like table 13, it is sorted by descending KSI and shows which method the company chose to enter the countries. Even if only one country, the U.S., has an equity-based method, this country is located further down the table, which means it has a lower KSI and is therefore culturally closer to Northern Italy. The question now is whether this may have contributed to the company choosing a riskier method. Mr. Wenter negated this question and stated that the decision to choose a WOS was made only because of the lack of partners, mainly distributors. According to him, the smaller cultural distance did not play any role.

Let us now look at Russia, which according to the KSI is the culturally most distant country from Northern Italy. We look at whether the greater cultural difference has contributed to the choice of a non-equity-based method, i.e., a less risky method. According to the company's experience, Russia is culturally no more distant than other countries where the company has entered. Russia has, as the biggest risk factor, the opaque bureaucracy, frequent arbitrariness - where you just have to do what is given, and weak legal security - where you have to be aware of the risk. Even if this corresponds to the high value in the power distance, in reality, it does not represent a higher risk for the company than for other countries. The problem with the opaque and very complicated bureaucracy is also present, for example, in Turkey or South America. Besides, if we look at the mentality and the culture of the people themselves, Russia is already very European and therefore it does not represent an additional risk for the company (Mr. Wenter). Therefore, it can be said that Dr. Schär did not classify Russia differently from other countries due to the culture and hence the choice of entry method did not depend on it.

As we can see in table 14, the company exports to some countries which have a very high KSI. One might think that the company has deliberately chosen a method that involves less risk. When asked to what extent this might apply to the Northern EU countries like Sweden and Norway, the company could not answer affirmatively. According to them, the two Scandinavian countries are not culturally more distant than other countries. The only reason why they do not have a local site there is for market reasons. There are already very strong local players there and so the risk is too high that a branch established at great expense would not be successful. Therefore, they believe they are better off with an importer. In terms of Malaysia and Kazakhstan, the lack of market potential is what prevents the company from setting up a local branch. However, Mr. Wenter says that the culture there can be a bit of a deterrent. Chile is also

too small for a local branch, and for the time being, the company is concentrating on Brazil and Argentina.

Generally, the company always chooses export, the least risky method. It does not matter much whether the country is culturally rather close or far away. This means that if a suitable local importer is present, they decide to work with them first to get to know the local market. However, if it later turns out that the market has potential, they decide whether a local presence would be an option. This was the case recently with the Turkish market when the company bought out its importer and set up a production facility there in early 2020 to manufacture bread. Turkey has proven to be a market with great potential, as it is easier to supply the countries around Turkey such as the Caucasus countries from there.

According to the company, a country that has a higher cultural distance could influence the choice of entry mode. However this doesn't relate so much to Dr. Schär since they always choose export if possible. This means that even if the company decided to enter a new country, which is possibly similar to Malaysia or Kazakhstan, the existing cultural distance does not play a major role. This case study has shown that it depends very much on the company and the leading management. Another company, which might have a different internationalization strategy, might make the entry mode dependent on the cultural distance. Dr. Schär will almost always choose export, even if a country is culturally very close to Northern Italy as, according to the company, this method is the best way to get to know the local market opportunities. Only in a second moment, when they have gained experience and the market shows enough potential, they consider establishing a local branch.

Now coming back to the hypothesis established, can it be confirmed in relation to this case study?

> **H:** A greater cultural distance reduces the likelihood of choosing a high control entry mode with high resource commitment.

This hypothesis cannot be confirmed in the case of Dr. Schär. This is due to the fact that they have an internationalization strategy in which the first entry is always by export, a method with less control, less resource commitment, and therefore less risk. Only if the company cannot find a suitable importer and the country shows great market potential, the company chooses a riskier method, as it was in the case of the U.S. However, the cultural distance factor does not influence this decision.

CONCLUSION

This thesis aimed to investigate whether cultural distance influences the entry mode choice of a multinational company.

Over the last 30 years, many scholars have tried to analyze whether there is a connection between a country's foreign culture and a company's internationalization process. Looking at the academic work, there are no clear and consistent findings. Some scholars concluded that foreign culture influences the choice of entry method, while others say there is no relation. Most of these works have taken hundreds of companies as subjects of study, all with different individual factors. Since this may have contributed to the inconsistent results, this thesis focused on just one company and its experience with cultural distance in the internationalization process. The choice fell on Dr. Schär, a Northern Italian multinational company that produces gluten-free products. The company is headquartered in South Tyrol, exports to more than 80 countries worldwide and has additional local sites in 11 countries. Due to the fact that Dr. Schär is the global market leader in gluten-free nutrition, the company represented the perfect object of the case study.

To analyze which entry method, the company chose to enter the target country and to what extent the decision is related to the possible cultural distance, the expansion history of Dr. Schär as well as the expected cultural distance were examined first. The cultural distance between Northern Italy and the target countries was calculated using the Kogut & Singh Index (1988). The focus was on calculating the distance of the countries that also have a local sales office or a production facility on site. The calculations showed that Russia is by far the most culturally distant from Northern Italy. Germany, on the other hand, represented the country closest to Northern Italy according to the KSI. On this, the company was asked if they would confirm this and whether there was a difference in the internationalization process. In terms of cultural distance, the company was unable to identify any noticeable differences. According to Mr. Wenter, it was bureaucracy that the company rated as the greatest risk component, although this was roughly the same for all countries.

Subsequently, it was analyzed which entry method the company chose for its internationalization projects. Dr. Schär almost always chose export, the non-equity-based method, which entails the least risk. This method is chosen because it allows the company to

gain a foothold in a foreign country without a large investment and it offers the opportunity to absorb and learn the local market conditions and the cultural characteristics of a market. Only the U.S. was an exception. Dr. Schär entered there by means of a WOS, more precisely an acquisition. However, the small cultural distance had no influence on this decision, instead, it was due to the fact that the company was unable to find a suitable importer and the market potential was too large to pass up.

To further analyze the extent to which foreign culture may have played a role in the choice of entry method, the company was asked about export-only countries. Since some of these countries are culturally very distant, we investigated whether an equity-based method with more risk was deliberately not chosen. But also, here we concluded that there is no significant relation there. Even if there is a high cultural distance, extra precautions are taken, but it does not change the choice of entry method. Even in the opposite case, if countries are culturally very similar to Northern Italy, the company will normally export first.

The thesis has shown that the question of whether and to what extent cultural distance influences the choice of market entry method cannot be answered in general terms. Each company should be examined individually, as each company's internationalization strategy is different. Dr. Schär, for example, chooses to export whenever possible, regardless of whether a country is culturally more distant or not.

CONCLUDING REMARKS AND LIMITATIONS

It should be noted that the results of this case study are not representative of other case studies. In this specific case, only one company was studied, which certainly did not have the exact same experience as other companies. This means that even if in this case no relationship was found between cultural distance and choice of entry method, this does not necessarily apply to other companies as well.

APPENDIX

<u>The following questions were asked during the first interview:</u>

- Stelle dich bitte kurz vor und erkläre mir, was dein Aufgabenbereich ist.
- Merkst du einen Unterschied in deiner Arbeit, die eventuell auf die fremde Kultur zurückzuführen ist?
- Welche Probleme treten auf, die mit der fremden Kultur in Verbindung stehen könnten?

Ich bin seit 2018 bei dem Unternehme Dr. Schär. Ich habe zuerst Backoffice gemacht, also Aufträge und Logistik für Osteuropa und dann haben sie mir angeboten, dass ich nach Argentinien kommen kann, um Key Account Manager zu machen. Seit März 2022 arbeite ich von Argentinien aus. Ich selbst betreute 50 Kunden, mit denen ich stetig in Austausch bin. Neue Produkte, Preise oder Promotionen werden besprochen.

In Osteuropa habe ich weniger mit Russland und Türkei zu tun gehabt, da Türkei relativ neu ist. Dort hatte das Unternehmen zuerst einen Importeur, der dann aufgekauft wurde und zu dem Sitz des Unternehmens wurde. Im Jahr 2022 wurde langsam angefangen Produkte vor Ort herzustellen, da man dann einfacher die Länder um die Türkei rum beliefern kann, wie zum Beispiel die Kaukasus Länder Russland verfügt nur über ein Büro mit nur einem oder zwei Mitarbeiter. Die Aufträge, die Russland betreffen, werden alle von Burgstall aus gemacht. In Südamerika gab es ein grundsätzliches Problem mit den importierten Produkten. Das Unternehmen hatte sehr hohe Kosten und die Situation mit dem Container war auch sehr problematisch. Vom Zeitpunkt, wo man einen Auftrag nach Italien verschickt, vergehen zwei Monate bis die Produkte in Südamerika ankommen. Plus in der Lebensmittelbranche habe die Produkte 4 bis 5 Monate mhd. (Mindesthaltbarkeitdatum) und dort ist es sehr schwierig, dies an den Kunden zu bringen. Außerdem kam es auch zu Qualitätsproblemen, da die diese durch den langen Weg geschädigt wurde. Deswegen hat das Unternehmen im Jahr 2017 einen Importeur aufgekauft. Das Unternehmen macht es öfter so, dass sie frühere Importeure aufkaufen und die Produktion dorthin verlegen. Das bedeutet von Brasilien aus werden bestimmte Länder beliefert. So kauft Argentinien zum Beispiel Brote direkt von Brasilien. Zurzeit sind zwar noch 80% der Produkte von Italien, aber die Idee ist direkt von Brasilen zu bekommen. Das hat zum Vorteil, dass es lokaler ist und man somit schneller agieren kann. Es

wird außerdem verschickt nach Uruguay und Chile, wo jeweils ein Importeur die brasilianischen Produkte verteilt. In Argentinien wurde auch ein Importeur gekauft im Jahr 2018, allerding wurde alles neu umstrukturiert, nur die Basisstruktur wurde genauso übernommen. In Argentinien ist ein Lager vor Ort, wo die Ware hin geliefert wird. Die Lager sind bei Dr. Schär immer outgesourced, ist sehr typisch. Früher habe sie mit DHL zusammengearbeitet, jetzt mit Number One. Das Büro, in denen gearbeitet wird, ist gemietet, der Importeur hingegen aufgekauft. Jetzt alles Dr. Schär. Allerdings war es relativ schwierig den Übergangsprozess zu machen. Vorher war es Free Gluten, jetzt ist es Dr. Schär Argentinien. Argentinien ist in allem mega kompliziert, Business zu machen gestaltet sich als schwierig, da sie sehr bürokratisch sind (um einiges bürokratischer als in Burgstall). Generell in Südamerika sind die Länder sehr bürokratisch, das Leben wird extrem schwierig gemacht. Das liegt daran, dass jedes Land in Südamerika eigene Sachen verlangt und benötigt (eigene Richtlinien). Jedes Land verlangt zum Beispiel eine bestimmte Verpackung. Somit kann Dr. Schär nicht eine einheitliche Verpackung für alle südamerikanische Länder herstellen, da jedes Land eine zusätzliche Aufschrift verlangt. Der Staat gibt dieses Gesetz vor und wenn auch nur kleine Abweichungen sind, muss die Verpackung neu gemacht sein.

Die Essenskultur ist ein Hauptthema für das Unternehmen. Es wird analysiert, was das Land traditionell ist. Zum Beispiel wenn wir nach Europa schauen, die Südländer essen viel mehr Brot als im Norden. Italien, Spanien und im Balkan wird viel mehr Brot konsumiert. Und beim Brot sieht man in Europa einen Unterschied. Im Süden verkauft sich besser weißes Brot und im Norden ist ein rustikales Brot, so wie ein Vollkornbrot, beliebter. Anhand von der Esskultur verkaufen sich die Produkte unterschiedlich. Überall wo die Schär einen Sitz hat (DE, SP, FR) werden die Supermärkte direkt beliefert, in Exportländer (überall wo keine Niederlassung ist) wird alles von Burgstall aus gemanagt. In Europa sind wir glaub ich, außer den DACH-Ländern sowie in Spanien, Frankreich, England und Italien, direkt nur mehr in Tschechien, Slowakei und in Polen. In den anderen Ländern haben wir einen Importeur, der uns diese Arbeit macht. Überall wo eine Niederlassung ist, wird es direkt gemacht. Auf längere Sicht macht es sicher Sinn bei den größeren Ländern (mehr Umsatz erwirtschaften) direkt in den Markt zu gehen. In Argentinien ist außerdem ein großes Problem der Inflation. Generell wenn man mit einer anderen Währung zusammenarbeitet, gibt es das Wechselkursrisiko. In Argentinien zum Beispiel gibt es heuer im Jahr 2022 eine geschätzte Inflation von 70 bis 80 Prozent. Argentinien hat schon seit Jahren so eine hohe Inflationsrate, sind schon seit langem in der Krise. Für das Unternehmen ist es am besten, wenn Argentinien an Italien so schnell wie möglich die Rechnungen bezahlen. Weil ansonsten verliert das Geld schnell an Wert. Dies ist allerdings in

anderen Niederlassungen auch der Fall. Türkische Lira glaube ich ist auch relativ instabil als Währung. Der Rubel hingen ist zurzeit relativ stark, liegt aber an der derzeitigen Situation. In Argentinien wird alles auf Spanisch abgeschlossen. Ich selbst habe die Sprache in der Schule gelernt und absolvierte mein Auslandsjahr in Mexiko. Dadurch ist die Sprachbarriere nicht gegeben. Das Können der Sprache ist sehr wichtig. Für mich war es eine Voraussetzung die Stelle zu bekommen. Besonders da ich im Verkauf arbeite und ich somit mit einheimischen Menschen im Kontakt bin, ist es besonders wichtig. Ohne der Sprache ist es sehr schwierig, da die meisten Südamerikaner schlecht englisch sprechen. Bei den jungen Menschen geht es ein bisschen besser. Bestimmte Einstellungen zu Pünktlichkeit: In Italien wird sich oft darüber beschwert, dass man kaum Antworten bekommt oder dass sie sich viel Zeit lassen. Sie haben eine ganz andere Arbeitskultur/Moral. Sie sind viel gechillter, viel entspannter. In Italien ist es zum Vergleich hektischer und stressiger. Ein großer Unterschied zwischen Südamerika und Italien in Bezug auf Arbeitsmoral. In Italien sowie auch die Deutschen sind sehr genau, pünktlich. Argentinier lassen hingegen ein bisschen schleifen, alles gemütlicher und kein Stress. Im Büro vor Ort fangen alle so gegen 9.15 oder 9.30 an zu arbeiten. In Burgstall hingegen ist der Großteil um 8 oder halb 9 im Büro.

Bei uns in der Niederlassung sind 6 Personen, davon 4 Männer. Alle Mitarbeiter bis auf ich selbst sind Argentinier. Auch in Brasilien, wo es ungefähr 50 Mitarbeiter sind, sind bis auf einen alles Brasilianer. Das bedeutet, dass Mitarbeiter vor Ort lokal rekrutiert werden. Auch in Türkei sind alle 35 Mitarbeiter lokale Mitarbeiter. Anfangs waren in Argentinien sogar 6 lokale Mitarbeiter, allerdings ist dann eine gegangen und ich bin nachgerückt. In den USA ist nur der Chef ein Südtiroler, Türkei nur lokale. Meistens sind es alle lokalen Arbeiter vor Ort. Höchstens 1 bis 2 Mitarbeiter, die vom Hauptsitz in Burgstall kommen. Südamerikaner sind langsamer bei der Arbeit, sie brauchen länger, um Sachen fertig zu machen. Ich persönlich war am Anfang sehr gestresst und musste mich daran gewöhnen. Ich bin es gewohnt, meistens sofort eine Antwort zu bekommen und klare Anweisungen nachzugehen. Man muss oft bis zu drei Mal nachfragen oder anrufen, bis man das bekommt, wonach man gefragt hat. Sie sind nachlässiger bei der Arbeit.

Deutsche Firmen haben ein anderes Modell: schicken Deutsche zb nach Argentinien und bauen auf und stellen später lokale ein. Dr. Schär arbeitet fast nur mit lokalen Mitarbeitern. Vorteil von lokalen: sie kennen sich aus, z.B. wie Gesetze sind, sie haben die Kontakte, am besten laut mir ein Mix. Man muss sich verlassen können auf die Mitarbeiter vor Ort.

A.2. Transcript of the interview with Andreas Wenter

<u>The following questions were asked during the first interview:</u>

- Wie lange arbeiten Sie schon bei Dr. Schär und was ist Ihr Aufgabengebiet?
- Können Sie mir grob den Internationalisierungsvorgang (Argentinien und Brasilien) schildern? Warum hat sich Dr. Schär für diese beiden Länder entschieden?
- Spielt Ihrer Meinung nach die fremde Kultur eine Rolle bei der Auswahl des Gastlandes? Spielte sie konkret eine Rolle bei der Wahl von Argentinien oder Brasilien? Kann die fremde Kultur ein ausschlaggebender Grund gegen einen Eintritt in ein fremdes Land sein?
- Wie genau oder mit welcher Methode ist das Unternehmen erstmalig in Argentinien und Brasilien eingetreten? (zB. Export, M&A oder Joint Venture)
- Hat die kulturelle Distanz zu den beiden Ländern bei der Eintrittswahl eine Rolle gespielt?
- Ist das Unternehmen in Deutschland (liegt kulturell näher an Südtirol/Norditalien) anders eingetreten? Hat es dort weniger Probleme in Bezug auf die Kultur gegeben?

Zunächst glaube ich diese Internationalisierungsprojekte sind immer sehr individuell unterschiedlich und hängen vor Allem vom Unternehmer bzw. Entscheidenden Management ab, unsere Firma z.B. hat einen Unternehmer, der sehr offen für Internationalisierung ist und auch bereit ist, Risiken einzugehen (denn der Schritt zu einer Niederlassung ist vor Allem eine Frage des Risiko). Desh. meine ich hier immer eine Niederlassung, ein normaler Export hingegen ist relativ Risikoarm außer eine Firma will unbedingt exportieren und muss dazu investieren. Bei Dr. Schär ist aber ein normaler Export nicht mit großen Investitionen verbunden.

- Ich bin seit 1999 bei Dr. Schär, immer im Verkauf, Anfangs für den Marktaufbau in Westeuropa, dann in Osteuropa und nun in den Extra-Europäischen Ländern mit-verantwortlich. Der eigentliche Verantwortungsbereich bezieht sich auf den Export, unter Export verstehen wir bei Dr. Schär jene Länder, welche keine Niederlassung haben. Die Entwicklung ist jene, dass in Export Märkten welche ein gewisses Potential aufweisen eine Niederlassung eröffnet wird, wenn dies der Fall ist dann ist dann bin ich im Projekt Team für die Übergabe im Vertrieb zuständig. Deshalb bin ich in der Anfangsphase dieser Projekte ziemlich nah am Geschehen dran.

- Die Entscheidung in Brasilien (2017) und Argentinien (2019) eine Niederlassung aufzubauen hat mit 2 Hauptfaktoren zu tun: 1. Das (zumindest) theoretische Marktpotential für unsere sehr spezifischen Produkte und 2. Die Schwierigkeit, dort geeignete Importeure/Distributoren zu finden. Bei Punkt zwei kommt dies daher, dass es für lokale Firmen sehr riskant ist, Importwaren in Fremdwährung einzukaufen und nachhaltig zu verkaufen da die lokalen Währungen teilweise starken Schwankungen unterliegen, es Inflation gibt und generell wenig Stabilität, d.h. um ein stark steigendes Business zu finanzieren braucht es relevante Ressourcen in Fremdwährung. Ein Beispiel: der Kunde kauft im Januar einen Container, dieser benötigt ca. 6 Wochen bis er im Land ist (wegen Transport und Zollabfertigung) dann benötigt man (bei unseren Produkten) ca 1 Monat Lager vor Ort und erst dann geht die Ware erst in den Verkauf an die Kunden, welche häufig bis zu 2 Monate Zahlungsziel haben. Also kassiert der Distributor erst im Juni, muss aber Dr. Schär maximal im März zahlen. Wir hatten in beiden Fällen kleinere, spezialisierte Importeure, welche praktisch nur unsere Marke vermarktet haben und beide hatten nicht den nötigen finanziellen Background um das Wachstum zu finanzieren. Aus diesem Grund haben wir beide Importeure übernommen und als Basis für unsere lokalen Niederlassungen etabliert, u.a. auch das Personal übernommen.

- Kulturelle Herausforderungen spielen sicherlich bei der Risikoeinschätzung einer Investition wie jener einer Niederlassung eine beträchtliche Rolle. Wir schätzen den kulturellen Unterschied dieser beiden Länder im Vergleich zu anderen Schwellenländern als überschaubar ein. Wir hatten bereits Erfahrung mit der Etablierung von Niederlassungen in Spanien und Frankreich. Aber eine fremde Kultur kann meiner Meinung sicherlich ein KO-Kriterium sein, wobei es eine Rolle spielt, ob ein Unternehmen vertraute Mitarbeiter in seinen Reihen hat welche die fremde Kultur kennen und sich dort zu bewegen wissen.

- Auf die beiden Länder bezogen: Sprache: Argentinien mit Spanisch kein Problem, in Brasilien wurde alles auf Englisch abgehandelt. Religion: identisch wie bei uns. Lebensstil: ähnlich wie in Südeuropa (Süditalien, Südspanien). Geschäftstätigkeit: ähnlich wie in Südeuropa. Wohlstand: konzentriert sich auf bestimmte soziale Schichten, welche eine gewisse Kaufkraft haben, Brasilien hat große soziale Unterschiede, die obere Mittelschicht ist durch die Anzahl der Bewohner des Landes relevant, in Argentinien ist die Mittelschicht besser entwickelt, also breiter als in Brasilien. Man spricht von „wirtschaftlich relevant". Soziale Normen: Umgangsformen sind ähnlich wie in Südeuropa, die Produktivität der Angestellten ist im Vergleich zu Europa jedoch niedriger. <u>Bürokratie:</u> ist mit Sicherheit eine massive Risikokomponente welche für uns als die größte Hürde eingestuft wurde, aber auch

hier sind wir ja mit Italien Einiges gewohnt. Ich würde also sagen, dass die kulturelle Distanz als managebar eingeschätzt wurde.

- Markteintritt in Ländern der Ersten Welt: In Deutschland und Frankreich haben wir eine Firma gegründet, lokal Personal rekrutiert und den Markt von verschiedenen Distributoren übernommen. In den USA haben wir eine Firma gegründet und sind von 0 gestartet (wobei man sagen kann, dass die kulturelle Distanz zu Brasilien und Argentinien mindestens vergleichbar groß war). In Spanien, UK und der Türkei haben wir lokale Konkurrenten übernommen und durch diesen Schritt die Niederlassung etabliert.

Generell würde ich also sagen, dass die Form des Markteintritts nicht so sehr von kulturellen Barrieren gekennzeichnet ist. Probleme mit der Kultur würde ich sagen hatten wir in allen Ländern vergleichbare, in meiner Erfahrung hängt der Erfolg eines Projektes am stärksten von der Qualität der lokalen Mitarbeiter ab (was die Firmeninterne Komponente betrifft). Vertrauen in die Mitarbeiter spielt in solchen Interkulturellen Projekten eine entscheidende Rolle, da kommt man immer wieder zur gleichen Frage: kann ich einem Brasilianer mehr vertrauen als einem Deutschen? Na ja, hängt von der Person ab.

The following questions were asked during the second interview:

- War Export bei allen Ländern die Eintrittsmethode? Wurde somit immer zuerst exportiert und später kam die Entscheidung, eine Firma vor Ort zu kaufen/errichten? Ist Export immer die Wahl für den ersten Eintritt in ein neues Land?
- Sollte Frage 1 bejaht werden, weshalb fiel die Wahl der Eintrittsmethode auf Export? Hat eventuell die fremde Kultur eine Rolle gespielt? Wollte man keine risikoreichere Methode wählen?
- Nach meinen Berechnungen (mittel K&S Index) nach, ist Russland das Land, das kulturell am weitesten von Norditalien entfernt ist. Würden Sie das bestätigen? Gilt der Eintritt in Russland als risikoreicher für das Unternehmen im Vergleich zu anderen Ländern?
- Länder wie Schweden, Norwegen, Malaysia, Kasachstan oder Chile gelten ebenfalls als kulturell sehr distant. Das Unternehmen exportiert dorthin, hat aber keine Niederlassungen. Gibt es dort trotzdem Probleme in Bezug auf die fremde Kultur?

- War Export bei allen Ländern die Eintrittsmethode? In der Regel ja, durch Export limitiert man das Risiko, weil man weniger Investment braucht und trotzdem sieht, ob der Markt für das Produktsortiment anzieht oder nicht. Man kann Erfahrungen sammeln, die Preiselastizität prüfen usw. Allerdings gibt es bei uns auch Ausnahmen, hier anzuführen die

USA. In diesem Falle war uns schon klar, dass der Markt gegeben ist, jedoch haben wir schlicht keinen geeigneten Importeur gefunden. Deshalb wurde von 0 gestartet und eine Firma in den USA neu gegründet.

- Wieso Export als Eintrittsmethode: wie gesagt, ist Export eine gute Möglichkeit die lokalen Marktgegebenheiten und sicherlich auch die kulturellen Eigenheiten eines Marktes aufzunehmen und zu erlernen. Dazu gehören auch die lokalen rechtlichen Bedingungen wie z.B. Zoll und Bürokratie, Auflagen bei den Verpackungen, Distributionslandschaft (welche Vertriebsschienen, in unserem Falle Supermarktketten, gibt es und wie funktionieren sie). Man sieht vor Allem, ob das Sortiment Potential hat oder weniger Nachfrage besteht. Das hat auch viel mit Essenskultur zu tun, also schmecken unsere Produkte den Konsumenten in einem Zielland. Risikoreichere Variante: generell ist es so dass Risiko immer ein Faktor ist den man lieber reduziert als eskaliert, Risiko hat immer mit Investition zu tun (in Zeit, Aufwand, Geld).

- Zu Russland: in unserer Erfahrung ist Russland kulturell nicht weiter entfernt als Südamerika oder die Türkei – alle diese Länder haben als größten Risikofaktor die undurchsichtige Bürokratie, häufige Willkür (wo man einfach machen muss was vorgegeben wird) und die schwache Rechtssicherheit, wo man sich dem Risiko bewusst sein muss. Aber allgemein was die Mentalität und die Kultur der Menschen selbst betrifft ist Russland schon Europäisch und demnach kommt man schon zurecht.

- Was Schweden und Norwegen betrifft glaube ich nicht, dass diese kulturell distant sind, hier haben wir keine Niederlassung aus Marktgründen, dort gibt es sehr starke lokale Player und das Risiko ist zu hoch dass eine mit hohem Aufwand etablierte Niederlassung nicht erfolgreich sein würde. Also hier glauben wir mit einem Importeur besser zu fahren. In Malaysia sind wir nicht wirklich, da gibt es unserer Einschätzung nach kein Marktpotential und hier ist die Kultur sicher auch eine Abschreckung. Ähnliches gilt für Kasachstan hat auch sehr limitiertes Potential. Chile ist uns zu klein für eine Niederlassung, wir machen vorerst mal Brasilien und Argentinien und sehen dann weiter.

A.3. Calculating KSI to measure Cultural Distance

For the measurement of cultural distance, the KSI between Northern Italy and the other countries was calculated. For this, apart from the whole dimension values, the variance was needed, which was calculated in a separate Excel document.

Country /Hofstede Cultural Dimensions	Power Distance	Individualism	Masculinity	Uncertainty Avoidance
Albania	90	20	80	70
Angola	83	18	20	60
Argentina	49	46	56	86
Australia	38	90	61	51
Austria	11	55	79	70
Bangladesh	80	20	55	60
United Kingdom	35	89	66	35
United States	40	91	62	46
Uruguay	61	36	38	99
Venezuela	81	12	73	76
Vietnam	70	20	40	30
Zambia	60	35	40	50
VARIANCE	431,83	477,04	339,61	459,8

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MNEs' choice of market entry mode: The case of Dr. Schär

con relatrice la Prof.ssa Fiorenza Belussi

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