How do cultural and institutional factors influence the entry mode decision of a multinational firm? A case study of a Norwegian MNE

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Abstract

This Master Thesis investigates how cultural and institutional factors affect the entry mode choice of a multinational firm. Previous research has found equivocal results regarding the effect of these factors on the entry mode choice. One meta-analysis has found that one third of all studies found one particular effect, another third found the opposite, and the last third found no effect. The span of the results is therefore wildly conflicting, and in need of further investigation. We therefore conducted a singular case study on a multinational firm in order to gather information-rich data on the effect of these factors on the entry mode decision. We conducted semi-structured interviews with employees from each of the regions that the firm operates in. These employees have been present in the early stages of market entry and can therefore paint a comprehensive picture of the factors that affect the entry mode choice.

We found that cultural and institutional factors did not have an effect on the entry mode choice, but rather on the establishment mode, the ownership structure, and on the type of partner used, whether local or foreign. Throughout the paper we refer to these as variations within the entry mode choice. The entry mode choice was found to be determined by firm- and industry characteristics, and the firm uses a partnership structure in all markets in which they operate in order to reduce the amount of resources committed in each market and to reduce the risk that is tied to the high failure rate of the industry.
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1.0 Introduction

When a multinational enterprise (MNE) has decided to enter a foreign market, the firm has to determine which mode of entry that is the most appropriate. These include non-equity agreements such as licensing or exporting, equity-based ventures such as a joint venture (JV), or a wholly owned subsidiary (WOS) through the acquisition of an existing firm or by establishing a greenfield operation (Hill, Hwang & Kim, 1990). Each of these different modes of entry have different implications for the firm, such as the degree of control the MNE can exercise in the foreign market, the resources it must commit, as well as the risks it must bear entering into the market. The choice of entry mode is therefore a complex and difficult task for the MNE. It has been argued that cultural and institutional “distance”, the difference between the firm’s home and host market, has an influence on the entry mode choice by the firm. The theories related to entry mode decisions are many and well-developed, however, there have been a lack of consensus of how cultural and institutional factors affect the entry mode decision, and the research continues to provide us with equivocal results. The aim of this master thesis is thus to enhance our understanding of how cultural and institutional factors influence the entry-mode decision of a MNE. Our research question is thus as follows:

“How do cultural and institutional factors influence the entry mode decision of a multinational firm?”

The study was done through a singular case study on a Norwegian MNE with the objective to gather rich data on the subject. Our findings highlight that the firm-and industry characteristics dictate the entry mode choice by the firm. The firm always uses partnership structure (JV) as their entry mode in order to reduce the resources committed in each market, and to reduce the risk they are facing in an industry that is characterized by a high failure rate. We found that although the firm’s entry mode decision was not directly influenced by cultural and institutional factors, countries of higher cultural and institutional distance tended to have fewer available local partners, stricter governmental laws regarding ownership structures, and a higher need for local ownership for reputational
purposes. While these factors do not influence the entry mode choice, they did have an impact on the variations within the entry mode, i.e. the ownership structure, establishment mode and the type of partner, whether foreign or local.

2.0 Literature review

2.1 Establishment mode and entry mode decision

When a MNE decides to enter a new market by investing equity in a foreign country, there are two strategically important decisions that need to be made; the choice of establishment mode, and the choice of entry mode (Dikova & Witteloostuijn, 2007). The establishment mode choice can be done through establishing a foreign operation from scratch, a greenfield operation, or through buying equity share in an already existing foreign entity, an acquisition. The entry mode choice is regarding whether the firm wants to run operations alone, or to enter with a partner. Entry modes can first be classified as equity-based or non-equity based. Secondly, the equity modes are divided into wholly owned subsidiaries and joint ventures, while non-equity modes are split into contractual agreements and exporting (Pan & Tse, 2000).

2.1.1 Establishment mode

MNEs can establish operations in new markets through either a greenfield investment, or through acquisitions. To establish a greenfield investment, the MNE builds a new subsidiary from scratch. The new subsidiary can then be owned by its entirety by the MNE, or it can be co-owned by a foreign or local partner. If the MNE decides to engage in an acquisition, they purchase equity shares in an already existing firm. The MNE may decide whether to buy part or all of the existing shares, meaning that an acquisition can be a wholly owned subsidiary or a joint venture (Slangen & Hennart, 2007). The main theory that is used to explain the establishment mode choice by the MNE is that of transaction costs (Hennart & Park, 1993). This theory explains that the choice of establishment mode, either greenfield or acquisition, is based on a comparison of
costs associated with obtaining intermediate inputs abroad through the two establishment modes (Slangen & Hennart, 2007).

When the firm first decides to invest abroad, they combine some firm-specific advantages that have been developed in their home market with other assets that are available in the foreign market. Further, it is the nature of the firm’s advantages that determine whether the entry will be through greenfield or acquisition (Hennart & Park, 1993). For example, if the firm’s advantages are deeply embedded in its organization, such as in its labor force, the advantages are bound to the MNE’s organization and can be hard to combine with an acquired unit. When, on the other hand, the advantages lay in an organizational ability or technical expertise that can be separated from the organization, the MNE may be able to combine these advantages with that of an acquired firm (Hennart & Park, 1993). In other words, when establishing a greenfield operation, the MNE can introduce their organizational and managerial practices from the outset, whereas with an acquisition they are faced with already existing practices (Drogendijk & Slangen, 2006).

2.1.2 Entry mode

2.1.2.1 Equity-based entry modes

Equity-based entry modes include wholly owned subsidiaries, through either acquisition or greenfield establishment, and equity-based joint ventures (Pan & Tse, 2000). These types of entry modes do by definition entail an equity investment by the foreign entrant. The local enterprise is either partially or wholly owned by the foreign entity, the MNE (Harzing, 2002). Following the rationale presented in this paper, the MNE will choose a wholly owned subsidiary if they want high control, high resource commitment and if they face relatively low levels of dissemination risks (Hill et al., 1990). The main benefits of a wholly owned subsidiary are its ability to maintain complete control of the host-country operation with absolute decision-making authority, and the consequent high risk/return (Agarwal & Ramaswami, 1992).
A joint venture is an arrangement of two or more distinct organizational entities agreeing to invest capital or pool their resources with the purpose of accomplishing a specific goal (Pfeffer & Novak, 1976). Powell (1990) stated that firms would want to pursue a joint venture in order to quickly gain access to new technologies or markets, to benefit from economies of scale by doing joint research and production, to get access to important know-how outside the boundaries of the firm, and to share costs and possible risks of activities. Moreover, if the partner is considered to be “local” in the particular market, it typically provides the joint venture with local legitimacy, market knowledge, governmental and industry contracts, and a local labor supply. This local partner is also said to be an important contributor of information on the particular market’s cultural traditions, norms, values, and institutional differences (Inkpen & Beamish, 1997). A critical consideration when evaluating the opportunity of a joint venture is the level of equity held by the different parties. 51% equity means that one part exerts greater control than the other, while 50:50 or a minority equity does not (Welch, Benito & Petersen, 2018).

2.1.2.2 Non-equity entry modes

Non-equity entry modes include contractual agreements, which are further broken down into licensing, R&D contracts and alliances, and export, both direct and indirect (Pan & Tse, 2000). These modes of entry all have in common that they do not entail equity investment by the foreign entrant, and are especially popular among service firms (Erramilli, Agarwal & Dev, 2002). The non-equity modes of entry all entail lower risk, resource commitment and control than that of entry by direct investment. From previous research it has been consistently showed that firms are more likely to choose investing in foreign countries if they are larger in size, have higher international experience and if the foreign market shows a good market potential. The firms are, however, less likely to enter markets by direct investment if the market shows large risks (Agarwal & Ramaswami, 1992). Non-equity modes of entry can therefore be seen as a good alternative if the firm does not have much international experience, if the foreign market is not of high importance and/or if the market shows a large potential of risk.
2.2 Determinants of entry modes

Each of the different modes of entry have different levels of control, resource commitment and dissemination risk. These three characteristics range on a continuum from high to low for the different modes of entry and will now be discussed further.

Control involves the authority over decision making, both at the strategic and the operational level. In a wholly owned subsidiary, the MNE has the ultimate decision-making power, whereas the control is the lowest in a licensing agreement. In a joint venture the level of control is determined by the division of ownership and number of parties involved (Hill et al., 1990). The control characteristic is rooted in one of the most important strategic decision for the firm; their internationalization strategy. A firm with a multidomestic strategy competes predominantly on a domestic level and needs to adapt products and policies to various markets (Harzing, 2002), it may therefore make sense to let a local representative or partner take control of the day-to-day operations (Hill et al., 1990). However, if consumer tastes are similar in the different markets and significant adaptation is not necessary, the MNE may capture economies of scale by centralizing the decision-making process, advertising and/or production. This is called a global strategy and may favor more control in the foreign market (Hill et al., 1990).

Resource commitment involves the dedicated assets that need to be invested by starting the new venture. These can be both tangible and intangible; physical plants or managerial know-how. For the wholly owned subsidiary, the MNE has to bear all of the costs involved with opening and operating the plants, whereas in a licensing agreement the licensee would bear these costs. Firms may be reluctant to commit much resources if perceived risks in the foreign market are high, and will therefore be more likely to favor entry modes that require lower resource commitments, such as licensing or joint ventures. On a similar logic, the MNE will favor these types of commitment if the host country differs significantly from the home country.
Lastly, dissemination risk refers to the risk of losing know-how to the partner in the foreign market. If a MNE enters into a licensing agreement or a joint venture, the firm runs the risk of the partner tapping into their know-how and disseminating this knowledge which results in a loss of quasi-rent. The risk of dissemination can be reduced by comprehensive contracts; however, these are restricted by bounded rationality and high costs. The dissemination risk is at its lowest for a wholly owned enterprise, and at its highest for licensing, while a joint venture is considered to be in between (Hill et al., 1990). The MNE therefore needs to decide on the mode of entry based on trade-offs between risks and returns (Agarwal & Ramaswami, 1992).

2.3 The role of cultural and institutional aspects

In addition to the firm’s desired levels of control, resource commitment and dissemination risk, research argues that the MNE needs to consider the cultural and institutional aspects of the foreign market in which they want to enter.

2.3.2 Cultural context

Culture can be seen as the homogeneity of characteristics that separates one group of people, national or otherwise, from another. The culture includes a set of norms, values and institutions that explains how societies manage exchanges, within and between different groups of people. Although individual differences of course exist between people whom belong to the same culture, the national or aggregate culture helps us understand the typical individual value priorities in a society (Hofstede, 1980). Cultural distance, or the relative cultural distance between countries, demonstrates differences in norms and values between the home country and the potential foreign market (Kogut & Singh, 1988). Cultural distance has become a key concept in the field of international business, and there are almost no instances of international business studies that do not include an explicit variable controlling for cultural distance (Harzing & Pudelko, 2016). The concept is built on Hofstede’s (1980) research into differences in culture and was later made into a concrete formula that can measure cultural “distance” by Kogut and Singh (1988). Since then, cultural distance has been used to explain a wide range of MNE strategies, such as the choice of entry mode into a foreign market.
(Shenkar, 2001). Most studies theorize that when the cultural distance between home and host country increases, the ability of the MNE to operate effectively in the host country decreases. The difficulties that stem from a large cultural distance are associated with a lack of understanding of the norms, values and the underlying institutions, as well as a higher level of uncertainty and complexity regarding the decision-making of the firm (Tihanyi, Griffith & Russell, 2005).

Past research has, however, been inadequate in providing consistent evidence on the explanatory effect of cultural distance on entry mode choice (Barkema, Bell & Pennings, 1996; Benito, 1997; Erramilli, Agarwal & Kim, 1997; Tihanyi et al., 2005). Thus, a paradox has emerged as a consequence of research on cultural distance due to contradicting findings regarding recommended level of control, and the literature on cultural factors’ influence on entry mode decisions has been split into two streams of thought that argue differently on the need for control versus risk-reduction in culturally distant markets.

2.3.1 Institutional context
A country’s institutional context can be seen as the rules and norms of its environment, and the country’s institutions therefore provide the rules of the game that organizations must follow in their interactions with the society (Davis, Desai & Francis, 2000). It can be useful to distinguish between formal (laws and regulations) and informal (norms and culture) institutions (North, 1990).

Differences in institutional environments may represent both opportunities and difficulties for the MNE when entering a new market. According to Dunning (1993), a different institutional environment than present in the home country, including both normative and regulative aspects, may be more favorable for the MNE when performing certain activities. For example, some countries are more supportive and have more beneficial rules when it comes to specific types of investments that they lack and consider valuable for their development. Additionally, formal institutions may have significant influence on a company’s mode of entry and operation, as for example, the local authorities in a country may prefer particular entry modes and therefore adjust the regulations accordingly (Welch, Benito & Petersen, 2018), thereby limiting the amount of entry mode
choices the MNE has. Kostova and Zaheer (1999) proposed the larger the institutional distance between two countries, the more complicated it is for the MNE to establish legitimacy, and transfer routines and best practices to the foreign market. High uncertainty related to the country’s legal system, poor government efficiency, sudden changes in policies and poor handling of property rights, will make the MNE more vulnerable. Weak institutional governance can result in additional costs for the MNE, for example in the case of corruption (Wei, 2000). Moreover, unfamiliarity with the new environment can result in additional costs associated with doing business, such as unfamiliarity hazards related to lack of knowledge (Caves, 1971) and relational hazards related to costs of monitoring, opportunistic behavior and lack of trust (Williamson, 1999). Some argue that these costs can to some degree be limited by a higher level of ownership in the entry mode, thus favoring wholly owned subsidiaries or joint ventures with majority share. There is, however, a lack of consensus on this topic and past research has provided equivocal results to the effect of institutional distance on the entry mode choice by MNEs.

2.4 The paradox in the literature

As mentioned above, past research has been providing contradicting results to the effect of both cultural and institutional distance on the entry mode decision by MNEs. These will be discussed further in this following section.

2.4.1 Cultural

Although the issue of entry mode choice has been extensively studied, the results regarding various measures of cultural distance are continuing to provide equivocal results (Maseland, Dow & Steel, 2018). The paradox in the literature is quite significant. Harzing and Pudelko (2016) conducted an exhaustive literature analysis of papers testing the effect of cultural distance of entry mode choice. This analysis revealed that one third of all studies found one particular effect, another third found the opposite, and the last third found no effect. Two meta-analyses further strengthened the confusion: Two found no significant results (Morschett, Schramm-Klein & Swoboda, 2010; Tihanyi, 2005), while two other meta-analyses found a negative impact of cultural distance on equity-based entry mode choices.
However, one of these (Zhao, Luo & Suh, 2004) is only valid for US firms, while the other (Magnusson et al., 2008) is only valid for European firms.

One direction of studies represents the researchers who believe that a larger cultural distance facing the MNE in a new market, the more likely the MNE is to exert higher levels of control over its foreign entry (Padmanabhan & Cho, 1996; Anand & Delios, 1997; Chen & Hu, 2002). This is, amongst other reasons, because larger cultural distance is associated with higher transaction costs, which can be minimized with tighter control (Hennart & Reddy, 1997). Additionally, through a higher percentage of equity ownership, the MNE can potentially mitigate some of the differences in cultural values and improve the social exchange across markets and therefore improve the operating effectiveness (Tihanyi et al., 2005). Therefore, wholly owned subsidiaries are the preferred entry mode when costs related to cooperative agreements are higher than the costs of being in complete control (Erramilli & Rao, 1993).

Where some argue that the need for control is essential, others argue that the need for risk-reduction is more important when deciding on the mode of entering a foreign market. This is where we find the other part of the studies, the ones who see cultural distance as an external uncertainty that needs to be mitigated against (Tihanyi et al., 2005). Hence, in situations with high cultural distance, a firm may prefer to share the control and gain greater flexibility through establishing a joint venture (Kogut & Singh, 1988; Kim & Hwang, 1992; Erramilli & Rao, 1993). This is done to compensate for the lack of knowledge and bridge cultural gaps, and therefore rely on a local partner to get access to unique and valuable knowledge (Gatignon & Anderson, 1988). Additionally, the MNE has a lower resource commitment which reduces their risk exposure in markets that are culturally distant.
2.4.2 Institutional

The previous research on the effect institutional differences, and especially the regulative distance, has provided contradictory results (Hernández & Nieto, 2015; Dow & Larimo, 2009). While some papers argue that the greater the distance leads to enter new markets with entry forms requiring lower resource commitments (Xu & Shekar, 2002; Xu, Pan & Beamish., 2004), others argue the opposite - that the larger the distance leads the firm to enter using higher resource commitment forms of entry (Gaur & Lu, 2007; Estrin, Baghdasaryan & Meyer, 2009).

Xu & Shenkar (2002) argue that the MNE is more likely to enter a foreign market with higher ownership modes where the institutional distance is small, and conversely to choose a minority joint venture where the distance is large. Their main argument is that equity involvement by local partners may compensate for the difficulties associated with obtaining legitimacy in the host country by mobilizing local legitimacy. Furthermore, they argue that external legitimacy is more important to the MNE than internal consistency in countries with very different institutional environments.

Gaur & Lu (2007) found the opposite. They argue that as the institutional distance increases, the more useful it is for the firm to use a high-control ownership strategy. The more distant the host country is from the organizational center of the MNE, the more the firm has to bridge differences (Estrin et al., 2009). Estrin et al., (2009) argue that the firm will choose a high-control ownership strategy for different reasons. Firstly, complex contracts, such as for JVs, may be difficult to design if the partners operate under different legal systems. Secondly, differences in formal institutions may inhibit the transfer of business practices to local partners operating under local rules. Lastly, the local market regulations may inhibit the replication of practices in the firm’s existing organizations elsewhere. A higher institutional distance will increase the need for restructuring of the organization, but the legal framework may constrain this restructuring.
2.5 Why is the research providing inconsequent results?

Cultural distance is one of the most researched concepts in the field of international business, and the inclusion of the distance measure as an explanatory or control variable can be seen as almost compulsory in entry mode studies (Harzing & Pudelko, 2016). The relatively older literature, before 2010, aims at understanding the link between cultural and institutional aspects and entry mode. The more recent literature, after 2010, however, is more focused on explaining why the previous results from the literature are unclear. The literature has, indeed, provided many explanations for the reasoning behind the equivocal results of the effect of cultural and institutional “distance” on the entry mode choice. From an extensive search of the literature, we are still left with a lack of understanding of the actual effect of cultural and institutional distance on the mode of entry choice.

Although the following arguments are not directly tied to our research focus, they provide some explanations to why previous research find inconclusive results of the effect of culture and institutional distance on the entry mode choice. These arguments will therefore serve as a basis for our research going forward, when we embark on the quest to a deeper understanding of this phenomenon.

2.5.1 Culture

2.5.1.1 Simplistic accounts of culture

According to several researchers (Dow & Larimo, 2009; Taras, Rowney & Steel, 2009; Kirkman, Lowe & Gibson, 2017; Beugelsdijk, Kostova, Kunst, Spadafora, and Van Essen, 2018; Tung & Stahl, 2018) the research on how culture influences international business has a long way to go. Over the years, culture has been operationalized and defined in an overly simplified way, and scholars do not seem to fully understand the complexity of this construct. Approximately 79% of all cross-cultural studies between 1995 and 2001 have used country as a proxy for culture (Schaffer & Riordan, 2003), which shows the extent of this problem. An example from one of these studies illustrates this simplistic use of culture:
“cultural background was measured by current citizenship (passport status) of each of the managers” (Offermann & Helleman, 1997; 346). The effects of doing this type of simplified research has resulted in incomplete and inconsistent results (Beugelsdijk et al., 2018). Therefore, researchers argue that a single model is not able to include all aspects of culture because it is a highly complex, multidimensional and multi-layered construct (Taras et al., 2009).

2.5.1.2 Hofstede’s cultural dimensions and the Kogut and Singh index

The four cultural dimensions originally introduced by Hofstede in 1980 and further developed in Kogut and Singh’s (1988) study as a measure of cultural distance, has played a central role in international business (Cuypers, Ertug, Heugens, Kogut & Zou, 2018). Hofstede’s framework is based on data collected between 1967 and 1973 of managers of IBM subsidiaries over the world. Only 40 countries were covered, later 53. Hofstede’s research has mainly been criticized for assuming that national distance does not change over time, overestimating the number of dimensions, misinterpreting their meaning and for using data of questionable quality (Taras, Steel and Kirkman, 2012; Venaik & Brewer, 2016). Taras et al. (2012) therefore argue that Hofstede’s data has become less relevant, potentially outdated, and is therefore not able to explain cultural differences. Kogut and Singh’s (1988) contribution has also received criticism, for instance that it does not capture the nuances in country differences that a firm faces when entering and operating in foreign markets (Shenkar, 2012). Over the years, this study has been used as a crutch to “replicate and cite”, whereas Maseland et al. (2018) argue that it should rather be used as a springboard to develop new and better techniques for an improved understanding of cultural distance. Maseland et al. (2018) raises concerns about the index since the survey data was collected 45 years ago, and questions if the temporal stability still applies. Indeed, Beugelsdijk, Maseland & van Hoorn (2015) found that the scores of individual countries had changed relative positions in the global distribution of cultural values when they replicated the Hofstede dimensions.
2.5.1.3 Inadequate sampling

The issue of inadequate sampling has also been criticized by several scholars (Harzing & Pudelko, 2016; Brouthers, Marshall & Keig, 2016). According to Harzing and Pudelko (2016), there are few researchers (only 7 out of 92) that include both home and multiple host countries in their studies. This might suggest that instead of measuring the effect of cultural distance, these researchers are only measuring host or home country differences for those variables influencing the entry mode choice. Additionally, Brouthers et al. (2016) emphasize that using a single home/host country sample results in uncertainty of whether it is cultural distance or national distance that drives the results. They found this problem in more than 80% of the studies researching cultural distance, which highly affected the validity of the results. This shows that appropriate sampling is critical for reliable findings.

2.5.1.4 Over reliance on the distance concepts

Some scholars argue that there has been granted too much focus on the term “distance” (Harzing & Pudelko, 2016; Tung & Stahl, 2018). Harzing and Pudelko (2016) emphasize the importance of distinguishing between home and host country when it comes to context, and that distance should be deemed as less important. Further, they explain that host or home country context characteristics like investment restrictions, political risk, economic development, access to capital, or cultural traits could better describe entry mode choice than cultural distance. Harzing and Pudelko (2016) argue that many of the studies that, as discussed in section 2.4, provide contradictory results do not make ownership restrictions and other context characteristics explicit in their studies. By neglecting these country contexts, studies may have inappropriately attributed causality to cultural distance where these country contexts may actually have a much stronger explanatory factor. Whereas ownership restrictions set by the local government is a type of “hard factor” in which a firm has no free choice, other country contexts leave more room for variation in choices. This includes, amongst other things, the level of economic development. A lower level of economic development may, for example, lead to a higher percentage of greenfield investments due to a lack of
potential acquisition candidates. A higher degree of political risk, on the other hand, favors a lower risk entry mode choice. Papers written about the topic of cultural distance and entry mode is often based on firms with home markets in the West, and countries in Asia, Latin America, Eastern Europe or Africa as the host markets, which are culturally distant to that of the countries in the West. These host markets are often characterized by a higher level of government restrictions, higher degree of political risk and a lower level of economic development. In other words, the host country characteristics are likely to be significantly correlated with cultural distance in these studies (Harzing, 2003).

In an extensive review of studies (92 included) on entry mode choice, Harzing and Pudelko (2016) found that the vast majority do not include the factors of government restrictions, political risk and level of economic development as control variables. Although investment restrictions may seem like a simplistic measure, it was found to be the single variable that has the most direct relationship to entry mode choice.

2.5.1.5 Entry mode versus establishment mode

Some scholars distinguish between entry mode (the choice between a WOS versus a JV) and establishment mode (the choice between establishing a greenfield versus acquisition) (Brouthers & Hennart, 2007; Martin, 2013), while the term entry mode has often been used when referring to both (Klier, Schwens, Zapkau, & Dikova, 2017). Thus, one particular challenge is that some scholars compare not only JV versus WOS but for example also JV through acquisition and JV through greenfield, and other combinations of these different modes. This is problematic to the extent that any finding on a possible determinant of entry- or establishment mode choice (e.g., cultural distance) is “contingent on the heterogeneous aggregation or exclusion of some modes of entry” (Martin, 2013: 36). Thus, it results in the reference category shifting across studies.
2.5.2 Institutions

2.5.2.1 The asymmetry of the research

Hernandez & Nieto (2015) found that market entry in countries with lower levels of regulatory development than that of the origin is related to modes that require a lower resource commitment, and where the country has a higher level of regulatory development is conversely related to higher resource commitment modes. The regulatory institutions include the laws and regulations of a country and therefore define what is allowed and not allowed and the firm is therefore obliged to follow what is stated. This suggests that the direction of the institutional distance is important for the entry mode decision by an MNE, hence the effect depends on whether the firm enters countries with better or worse regulatory conditions than that of the origin country.

2.5.2.2 The different aspects of the institutional environment

It is important to note that different managerial decisions rely on different aspects of the institutional environment, as explained by Brouthers (2013) pg.18:

“If a firm is deciding to take a pay-for-performance program abroad it will be concerned with very different institutional factors than a firm deciding whether to use its branded products in a foreign market. The firm thinking about using pay-for-performance in a foreign market might be concerned with institutional issues such as social norms of behavior: what is or is not acceptable, based not just on industry norms but also on country-specific social norms. Cognitive issues about power and sharing will also be of concern, but this decision may not be influenced by regulative issues. In contrast, the firm thinking about using its brands in a foreign market will focus on institutional protections of property rights and enforcement.”

2.5.2.3 Oversimplified approach to institutions

In the field of international business (IB), scholars emphasize that institutions create incentives and constraints on a MNEs strategic choices. Jackson and Deeg (2008) argue, however, that the view of institutions tends to be oversimplified and
“thin” in the field of IB, as they utilize summary indicators rather than detailed
descriptions which leads to an unidimensional view of institutions. For example,
instead of treating institutional diversity in terms of its distance to the home
market, it may be advantageous to acknowledge which different institutional
arrangements have distinct strengths and weaknesses for the kind of economic
activity in which the MNE is practicing.

The Jackson and Deeg’s (2008) article has become highly cited in the field of IB.
Aguilera and Grøgaard (2019) looked into the empirical studies that have cited the
article in order to establish whether the article has had an effect on how IB
scholars treat the institutional variable in a more meaningful way. They divide the
articles into two categories, whether they are applying a “thick” or a “thin”
approach of institutions. The thick approach includes the studies that are able to
capture diversity and complexities of institutions, while the thin approach includes
studies that reflect unidimensional variable-based perspectives of institutions.
They identify two-thirds of the studies to be taking a thin approach to institutions,
which results in important institutional inter-relationship and the heterogeneity
among firms to be overlooked. They find that the majority of these studies show a
misalignment as they acknowledge the contribution by Jackson and Deeg (2008),
but despite of this, the empirical investigations are considered thin and therefore
not able to capture complexities.

3.0 Methodology

Several factors have determined the research methodology for this paper. In this
section we will describe our research method and provide a justification for the
appropriateness of the selected method. The methodology will cover the research
design, the sampling strategy, the interviewing design, and ethical and legal
considerations.
3.1 Research design

The research design was based on the objectives of our thesis. As discussed, the objective of the thesis is to understand how cultural and institutional factors influence the MNE’s choice of entry mode. In order to best answer our research question, we need to obtain in-depth knowledge on the particular subject. This requires information-rich data, and a qualitative research design was therefore chosen.

To answer our research question, we conducted an instrumental case study, which is a type of case study that focuses on the case as a means of allowing generalizations to be challenged (Bryman & Bell, 2015). The case was therefore not chosen to gain insight into the particularities of a situation, but rather to gain insight into a generic issue. The aim of the study is to better understand the way cultural and institutional factors affect the entry mode decision. As discussed, the literature has had difficulties in explaining the effect that cultural and institutional factors have on the choice of entry mode; some studies conclude that the bigger the cultural and institutional distance, the more control the MNE seeks in new markets, while other studies conclude that the bigger the cultural and institutional distance, the less control the MNE seeks.

The ambiguity surrounding the question and the equivocal results presented in the literature led us to choose a research design that will allow us to nuance the theoretical discussion and capture complexities surrounding the influence that cultural and institutional factors have on the entry mode decision. A case study was therefore the optimal method for this particular study as it had the opportunity to shed light on the actual decision-making process of a MNE. While using a single case means that we cannot generalize the results we find to other MNEs, it gives us the opportunity to facilitate the construction of detailed and in depth understanding of the very complex relation. Although adding more firms to the sample could help us draw wider conclusions on the question across industries, home countries, host countries etc., we believe that it could lead us to get the same equivocal results as previous research. The tradeoff was therefore made in favor of getting an in-depth understanding of the question through conducting a case study that can help guide further research on the area.
3.2 Data collection

3.2.1 Sampling

To answer our research question we used purposive sampling, a selection method of units with direct reference to our research question. To do so, we first had to select the case and thereafter sample units within the case. The main criteria for the selection of the case was:

1. That the firm is a multinational enterprise
2. That the firm has entered multiple markets
3. That key people involved in the entry mode decisions are still present in the firm

Scatec Solar is a Norwegian solar power producer with a global presence. The organization develops, builds, owns, operates and maintains solar power plants in a wide array of countries, and in particular, emerging markets. Scatec Solar has a wide portfolio of projects in foreign markets, which provides us with a suitable firm for the case study. Their focus is to seek out markets that have a strong rationale for solar energy, and they value partners when entering new markets. The organization was founded in 2007 and is headquartered in Oslo. This made it easier for us to conduct the study and get information that is up to date. As the firm is relatively young, there are still key people from large investments present, which was an important criteria for obtaining accurate information.

To select the right interview objects within the case, we started out by talking with the Human Resources department in order to identify the right respondents for our research. It was critical to the research that we engaged with people who have been active participants in one or more of Scatec Solar’s foreign investment processes. These respondents have information about the underlying reasons for the choice of a particular entry mode, and the way in which cultural and institutional factors were treated in the matter.
3.2.2 Data sources

The data collection includes both primary and secondary data sources. This gave us an opportunity to validate the answers given to us by the interviewees.

3.2.2.1 Primary data - interviews

The primary data was collected through semi-structured interviews, as it allows for a greater flexibility during the interviews. Our main objective was to obtain rich and detailed data to fill in a gap in the current literature about the topic, and we therefore let the respondents talk freely around our questions concerning factors affecting the entry mode decision. We did not specifically ask the interviewees about how cultural and institutional factors affected their entry mode decision, since it was important for us to not steer the interviewees in any direction. We did, however, have an interview guide (see appendix 1) that helped us probe questions to determine which factors were important for entry mode decisions. Additionally, we asked open-ended question concerning the processes of market entry to capture as much information as possible. The interview objects were allowed to speak freely, which led each interview to reveal what the respondent deemed as the most important factors influencing the entry mode decision.

Each interview lasted between 30-60 minutes, and the interviews were held in Norwegian as this was the preferred language among the respondents. By letting the interviewees talk freely in their mother tongue, we believe we got more profound and accurate answers to our questions. We employed a snowball sampling technique to map out the relevant interview objects, and we stopped once we had reached theoretical saturation (Noy, 2008). The saturation was reached after six interviews as we had interviewed one person from each of the firm’s regions, and one person from the firm’s legal team that was included in all market entries of the firm.

3.2.2.2 Secondary data

The secondary data included annual reports, news articles, and internal reports that were given to us from the firm and from searching the web. The data
provided us with the ability to check differences across markets and regions. Additionally, we used the data collected at the webpage ‘Hofstede Insights’ to map out the differences in cultural distance between each host market and with the company’s home market (see Table 1). This allowed us to calculate the distance for each market in order to see whether this had an affect on the entry mode decision by the firm, as proposed by much of the previous literature on the subject. Although our aim is to get a deeper understanding of the topic, we thought it was interesting to see whether there were any effect of the distance concept.

<table>
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<tr>
<th></th>
<th>Sum differences</th>
<th>Rank (where 1 is the most similar)</th>
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<tbody>
<tr>
<td>South Africa</td>
<td>87</td>
<td>1</td>
</tr>
<tr>
<td>Egypt</td>
<td>229</td>
<td>10</td>
</tr>
<tr>
<td>Malaysia</td>
<td>176</td>
<td>6</td>
</tr>
<tr>
<td>Brazil</td>
<td>149</td>
<td>3</td>
</tr>
<tr>
<td>Argentina</td>
<td>147</td>
<td>2</td>
</tr>
<tr>
<td>Honduras</td>
<td>220</td>
<td>8</td>
</tr>
<tr>
<td>Ukraine</td>
<td>226</td>
<td>9</td>
</tr>
<tr>
<td>Jordan</td>
<td>161</td>
<td>4</td>
</tr>
<tr>
<td>Mozambique</td>
<td>193</td>
<td>7</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>171</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 1. The most (1) and least (10) similar host-markets to the home-market (Norway) based on data from Hofstede Insights.

3.3 Ethical and legal considerations

When conducting research for a project, it is important to be aware of ethical issues that might arise. We provided the participants with complete information needed to decide whether or not they wanted to participate in the study. This was done by handing out a consent form in line with what Norsk Senter For Forskningsdata (NSD) suggests. In this form, the participants were provided with information about the project, and made aware of their complete anonymity and the opportunity to fully withdraw from the study at any point in time. We made it clear to the respondents that their participation in the study would not reveal their
identity and that we would not use information that could easily be traced back to the participant. This, we believe, contributed to the participants being more honest when responding to the questions. We also assured the participants that the information gathered would not be used for any other purpose than this particular study and that the information gathered would be treated with sensitivity. Before the interview started we informed the participants that we wished to record the interview, and got the participants consent to do this. This was done with the intent of getting the most accurate results. The recordings were safely taken care of and not shared with others, and will be deleted after handing in the project. During the interviews we made sure to ask questions in an objective manner, which helped provide us with the participant’s honest opinions. After we have finished our master thesis, the participants will be able to get full access to the results of the study.

3.4 Methodological considerations and limitations

3.4.1 Single case study

We are interested in producing a paper that can shed light on how cultural and institutional factors influence the entry mode decision of a MNE. Therefore, we have conducted a single case study, which does not intend to generalize across a larger population. We have chosen this study design to fill in the gap in our understanding of the current research on the topic of entry modes, by getting enough in-depth data to be able to nuance issues and untangle complexities.

3.4.2 Interview biases

The interview process which is often a part of a qualitative study exposes the research to biases. These biases can be attributed to both the interviewer and the interviewee (Bryman & Bell, 2015). For the interviewer these may occur if the interviewer has prejudice towards what they believe is the right answer. To hedge against this risk of bias, we created interview questions that were not directly asking the questions that we wanted an answer to. Additionally, we never mentioned the words “culture” or “institutions” until the interviewee themselves brought it up. That way, the interviewee talked freely surrounding the entry mode
decision and the factors that had an effect on it. We also asked questions about understanding differences between the various markets they operate in and how they interact with the different actors in these markets. In some of the interviews, the interviewees brought up the words culture and institutions themselves, which allowed us to go deeper into those two aspects. In the interviews where this did not happen, the interviewee brought up words like communication and language, compliance, corruption, local conditions, principles, laws, regulations, local norms etc. that could be tied to culture and institutions. All the interviews were transcribed, and during this process we were able to check that the interview objects had not been steered in any direction by the interviewers.

One of the common biases for interviewees is that of social desirability (Bryman & Bell, 2015). This bias is based on the interview objects’ desire to give responses that they believe to be socially accepted. One of the ways of tackling this bias is to ensure the interviewees that their responses will be anonymized so that any undesirable ways of doing things cannot be traced back to them. As our research is of a less sensitive nature, we did not perceive the interview objects to alter responses in order to be seen as acting in a desirable way.

3.5 Data analysis

3.5.1 Coding data

For the facilitation of the data analysis, we recorded and transcribed all interviews manually. Then, we uploaded the transcriptions to Nvivo - a qualitative analysis software. This allowed us to organize, analyze and get a thorough understanding of the qualitative data from the interviews. We also used this software for coding the data in an organized matter. As the interviews were only semi-structured, we had lots of data that needed to be categorized in a meaningful way. The information was therefore gathered and coded by categories to build our narrative.

Our analysis is inspired by the Gioia method. The method is designed to bring qualitative rigor to the to the conduct and the presentation of inductive research (Gioia, Corley & Hamilton, 2013). One important assumption to this method is that the interview objects are “knowledgeable agents” that know what they are
trying to do and that they can explain their thoughts, intentions and actions. We, as researchers, are therefore reporters whose main role is to account for the informants’ experiences. Our job is not to impose prior constructs or theories on the informants, but rather to represent their voices in the reporting of the research in order to create opportunities for the discovery of new concepts rather than affirmation for existing concepts (Gioia et al., 2013). Therefore, it was important for us to construct the interview questions in a way that did not include theoretical categories such as “cultural distance”, “resource dissemination” etc., but rather to let them explain their environments in their own words.

The method follows a distinct path. First, we gathered 1st order concepts that emerged from the interviews. These concepts were based on the terminology of the interviewees and were coded line-by-line to capture everything from the interviews. Both of us coded the interviews individually to make sure that no important information was forgotten. We then, in accordance with the method, started to look for similarities and differences among the concepts, resulting in 13 1st order concepts.

Secondly, in the 2nd order analysis, we will ask whether the emerging themes from the 1st order concepts can help describe the phenomena we are trying to observe. In other words, the stage lead us to answer the question of “what is actually happening here?” and we assessed how the 1st order concepts could help us answer our research question. Here, we used research-centric concepts, themes and dimension. Hence, in this stage our focus was to find factors of explanatory value to how cultural and institutional aspects affect the entry mode choice for a MNE. In this stage, we also identified the interrelationships between these factors. Further, we focused especially on the concepts that are lacking theoretical referents in the existing literature, or in our case, have not been adequately explained by existing theories. We merged the 13 1st order concepts into six 2nd order themes.

Lastly, when we had gathered a full set of 1st order concepts and 2nd order themes we had the basis for building a data structure (see figure 1). The data structure allowed us to provide a graphic representation of how we progressed from the raw interview data to the aggregated dimension. From this, we started to
consolidate the concepts as thoroughly as possible, and ended up with three aggregated dimensions. Ultimately, the data we have collected will, alongside the existing theory on the topic, be able to facilitate inferences from the research to be drawn, to create a deeper understanding of the current research of the topic.

**Figure 1 - Data Structure. (C/I is used as an abbreviation for cultural and institutional)**

**4.0 Findings**

The following chapter will present our main findings from the interviews and the supporting secondary data. The data will be structured and presented inspired by the Gioia-method we used for coding of the data, as explained in section 3.5.2. We will therefore “zoom in” on all the 2nd order themes that we have constructed from the data. Each 2nd order theme will have its own heading, and the 1st order concepts that make up each 2nd order theme will have its own sub-heading. Quotes from the interviews (translated) will be used to exemplify findings, these will however remain unreferenced as the interview objects were granted full anonymity.
The chapter will be structured in the following way: before going into our findings, we will describe the process by which the firm enters a new market so that the findings section will be easier to follow. This is only a short intro of the process, and the information will be discussed more in-depth throughout the chapter. Then, we will discuss that the entry mode decision is based on the need for low resource commitment and high control, regardless of cultural and institutional factors. Further, we will discuss how cultural and institutional factors influence the market entry decision and the way in which information is gathered at this stage. Lastly, we will discuss the aspects of market entry that we have found to be affected by cultural and institutional factors; the establishment mode, the ownership structure, and the type of partner.

The process of market entry

The process starts by the firm usually being contacted by local project developers who need the help of a larger firm to obtain financing for their project. The firm gets contacted by developers on a daily basis, and the contact can go through formal channels such as by filling out a form on their website, or through informal channels such as WhatsApp or LinkedIn. This is usually triggered by a situation where the local government has stated that they want to expand the country’s power capacity, and especially in renewable sources of energy.

When a potential market has presented itself, actors within the firm make a presentation with an evaluation of the market in question. This includes an overview and assessment of the macroenvironment, market regulations, how the power industry is regulated, the regulations around sunpower and building of projects etc., and the process takes about a week or two. This evaluation can be quite informal, as explained by an employee:

“We are still a young firm so we are constantly trying to institutionalize processes all a while not doing it as it can make us too rigid. So we have an element of trusting the people that evaluate the countries while we also have some formal checkpoints. In (the firm) we enter many new markets so we are pretty fearless to test new markets, so we do not put much focus on the threats of entering the market rather on the projects in the market and whether they are worthy of critique”
Some governments put out tenders for the firms to bid on with the promise that the government will secure all licenses and permits needed. In this particular situation, the firm often enters the market through establishing a greenfield venture with equity partners. More frequently, however, the firm enters the market through acquisitions of projects started by local developers. When they find a project that is worthy of more investigation, they do so by formulating a budget, do a due diligence with lawyers, and to try to get in place a power purchase agreement (PPA). Thereafter, the firm starts mobilizing themselves towards the building starts. A single purpose vehicle (SPV) firm is set up, and the firm starts structuring the financing of the project, which often involves around 70% non-recourse debt finance from development banks or other actors, and around 30% equity finance. The equity finance usually comes from the firm itself alongside partners. The partners are different in each market, and are often either a local firm, a Norwegian investment firm, or a foreign firm with experience from the market in question. The plant needs to be completed in the stated date of delivery of the PPA. When the plant is up and running, the SPV firm has an operations and maintenance (O&M) contract in place which lasts for the duration of the project.

4.1 Partnership is used regardless of cultural and institutional distance for lower resource commitment

The firm continuously emphasizes the need for a reduction in resource commitment. This is reflected in their use of partnerships to establish joint ventures in each of their markets, from the most similar in South Africa, to the least similar in Egypt (see table 1). Additionally, because of the high-failure rate in the industry, they further emphasize the need for a reduction in resource commitment.

4.1.1 Complex industry with high failure rate requires need for risk reduction

The firm’s aim is to develop a large portfolio of opportunities without using much resources, and that is one of the reasons to use equity partners in new markets.
“The failure rate is extremely high, so maybe only 1% of the projects that you are looking at are successful and then we are dependent on using the least amount of money possible until we know which ones will actually be successful because the projects are not that profitable.”

By doing so, the firm can reduce how much they are exposed in each project to a minimal level, which is also a part of their overall growth strategy. The way in which to reduce their resource commitment is firstly by entering the market by buying up projects that have already secured land, permits, licenses etc. so that they do not use much resources in this stage. Secondly, when they acquire projects they do so with equity and debt partners so that their own equity stake in the project is minimized, although to a level that they still have control of the project. One employee explained it in the following way when asked about whether they would consider starting the project themselves, so they would not have to deal with the issues of a partnership:

“It is so much work, we do not have the capacity and resources to do so, and it is high risk.”

“We would not be able to generate that many new projects ourselves. It is a race against the clock; if you have to be finished by the end of 2019 - the local people have already been doing this for five years. We would not have a chance. But they cannot bring the project further, so it is better for them to sell it to us so they get a development prize. It’s like the property development industry, really.”

The need for a lower level of resource commitment is therefore based on the industry itself and the firm’s current capacity. However, the firm was clear that even if they grow bigger and therefore get higher capacity and more resources, they would not want to start developing their own projects as they do not want to enter additional parts of the value chain:

“The main reason for local partners is that they help us into the markets, just doing the late-stage structuring and getting the finances in place is a very complex industry. If we were to take even more of the value chain we would make it very difficult for ourselves, so we are trying to avoid that.”
4.1.2 There is a need for low resource commitment in each project, regardless of the market

The firm’s business model is to serve countries where sun-power is in high demand. These markets are mainly the world’s emerging markets where the power capacity is still much below that of the world’s developed countries. The industry has a very high failure rate and the firm therefore enters new markets with partners to reduce their risk to a bare minimum:

“We have put in our equity, which is half of what is needed and accounts for around 10% of the total costs, and then often earned 15% on the building and development. So basically we have not lost any money. That is the model. And it is pretty similar everywhere.”

Regardless of the region where the market is located, or the “distance” of the market culturally and institutionally, the firm always enters markets using the model of partnerships to reduce their resource commitment and subsequent risk exposure. Their strategy is thus demand-driven and based on the wish of governments to increase their solar energy capacity. Thereafter, the firm enters the market with different types of partnerships. The entry mode choice is thus mainly based on the firm’s business model and the industry characteristics.

4.2 Control in the joint venture is essential regardless of cultural and institutional differences

The firm’s competitive advantage lies in being fast and thorough when structuring and financing projects. Together with the high need for a timeliness of delivery of the project, the need for control of the decision-making is crucial for the firm regardless of the cultural and institutional distance of the market. One way in which to ensure control is by using equity partners that are not interested with being involved in the operations of the project. This is often the case when the partner is not a local player, but rather a Norwegian or foreign investment player whom take a more passive role in the venture.
4.2.1 The importance of a timeliness delivery of the project requires decision-making control

Control is extremely important to the firm. They usually always try to get majority ownership to get the control of the processes, and they want to “call the shots”. There are hundreds of decisions that need to be taken consecutively, and opposing opinions on how these should be evaluated could drag the process out by valuable time. In the industry, it is extremely important to be finished by the time stated in the PPA, and if not, the firm is punished by strict fines by the buyer (whom is the customer of the PPA). In the markets where the regulations required local firms to have a majority share, the firm makes sure to get operational control through contracts:

“So you have the accounting control of 51%, but you can “deal” pretty easily away from that. So what we have done.. We fund the equity of the local partner through loan-instruments that have pretty strict requirements to what they can decide and not without our approval. Additionally, we are on the board and have veto-rights on everything. We also take up the position of asset-manager and make all day-to-day decisions, and sit on the operational management of the plant. So if you sum it all, we have the legal control, but also the accounting control to consolidate.”

4.2.2 The use of a passive partner leads to more control

“The use of partners is used as a remedy to get the origination of a project, so to get more projects. It is a necessary evil sometimes, we do not actually want that.”

“There are many, hundreds, of decisions that need to be decided on continually and therefore we cannot spend time on someone else (the partner) that say that they like to do things in another way.”

As discussed, when a local partner is used as an equity-owner after the initial acquisition of the project, it is often because there is no way around it. The firm, however, shows a clear tendency to favor working without a partner who wants a
say in the operations of the project. It therefore seems as though the firm favors passive equity-investors such as investment funds. The reasoning for this is that these types of partners bring in the necessary equity into the SPV, they do not, however, want any control in decision-making at the operational level.

“They (the financial investor) have trust in Scatec. They would like to have a seat on the board, but they usually have no other intention of meddling with the operation of the business than to make sure the project is completed”

The firm therefore, when given the choice, tends to choose equity-partners without a wish for operational control. This leads the firm to remain in control of decision-making. While the hassle involved with having a partner mainly originates in the wish to keep this control, some employees argue that the different cultural background of local partners can make the communication between the parties difficult, which contributes to the hassle of having a partner.

4.3 Certain institutional factors affect the market entry decision

Although the paper focuses on the entry mode decision, several factors came up during the interview process regarding the firm’s market entry decision. The firm placed a great emphasis on the need for the government’s demand for solar power and the need for a level of political stability to enter new market. These will be further discussed below.

4.3.1 The local governments’ demand for solar power is an important determinant for market entry

One of the first things the firm assesses is whether there is a general willingness and wish of the government in each market to get a higher power capacity from renewable solar sources. This can be done for example by the government contacting the firm directly, or by the incorporation of new power goals set out by the government.
“We need to see that there is a willingness from the government. If there is not, it is hard to make the project happen. We have to feel that there is a willingness to succeed both on a regulative level, but also on the national level with a wish to make solar power work in this country.”

Supportive regulations and a political willingness for the firm’s offerings makes the particular market easier to work with and could as a result be deemed more attractive to enter. The process could therefore be referred to as bottom up as it is more coincidental which market has subsidies for sun at the particular moment of entry. The local governments therefore play an important role in whether the firm is likely to enter the market. The firm, for example, tried to enter Nigeria but failed. Although the sheer market size, the solar conditions, and demand for solar power is present, there was a lack of willingness and the necessary help from the government.

4.3.2 The political stability of the country is an important criterion for market entry

The firm considers political stability as important when assessing the market. When the firm has decided to enter a particular market, and thus organized the financials and committed resources, it is highly unfortunate if the government suddenly tightens the regulations making it difficult for the firm to operate in the desired manner.

“If you think that yes historically this country will change government then before the program is completed or before the auction halls or before.. or that there is a political unrest or.. What I am trying to say is that it is important to understand the political drivers behind for example such a public procurement of energy. And that there is some stability then.”

Further, the firm prefers that there is a lower potential risk of war in the country. This is a factor that could indicate a greater risk for the success of the project and make things more complicated for the firm. The firm acknowledges that this potential risk makes business more problematic, but it does not, however, make the market completely impossible to enter.
“The risk of war is something that we are not very fond of. We have projects in Mali that have been postponed for three years because of civil war so we just have to wait then, but countries with imminent risk of war is not very cool. We are working in most African countries, so it’s a bit like there are many so-called fail states, where it doesn’t work because then you will never get a stable enough framework in place.”

4.4 Emphasis on understanding cultural and institutional aspects of all new markets

The firm places an emphasis on the need to understand how to navigate in each market, before entering the market. The way in which information is gathered depends on the structure and rules of the given market, and the availability of partners, projects and other services. As each market has its unique rules and regulations that apply to the industry, this is an important prerequisite to entering any new market regardless of its cultural and institutional distance to the home market.

4.4.1 How market information is obtained

“A local partner is not important for obtaining insight about the country per se, but rather about what the timeline of a project is. Other information about the country is mostly obtained from other actors”

When entering a new market, the firm puts emphasis on the importance of their network. Within their network there lays extensive experience from each markets, and additionally they always have a dialogue with the Ministry of Foreign Affairs (Utenriksdepartamentet), embassies, and the chambers of commerce. The development banks are also used as a source of market knowledge. The information that they obtain from these sources include the mapping of who the different stakeholders are, what their interests are in the industry, how the decision-making process usually plays out in the particular market and how the firm can influence those processes.
“It is about understanding the regulative institutions, who are the governments involved, who approves PPAs, who secures the land, who gives you land permits. It's all about mapping it out, who are the most important stakeholders and decision-makers on the different levels.”

Upon market entry, the firm always, regardless of market, contacts local consultants and lawyers to learn about how business is done in the particular market. This is regarded as a standard procedure for each market. From their local consultants this includes, for example, how high-level taxes work in the market and how the practice of repatriation of cash is done. From the local lawyers they learn how the processes concerning how to secure land is in the particular market, which documents are needed and in which order one can obtain them etc.

The firm therefore secures most of the information about how the development of a project is done in the market before entering. That does not mean, however, that they wish to do the initial development of the project themselves:

“When we enter a market we need local lawyers and local consultants etc. so these services we buy. Hypothetically, we could do all of the business development as a stand-alone owner, however, we have not seen this as the most effective way so far.”

The local partner is not seen as the main source of information about the market or country per se, but rather as a market opener whom has the knowledge surrounding the early phases of the development and can handle these time-consuming tasks before the firm enters the market:

“The most important thing is that they know how to get all building approvals, secure land, make sure the land deal is in place and that it is legally binding - get all permits and licenses ready that is needed to get the project ready for the building stage”

The information about how “things are done” and how to navigate in the market is important to obtain one way or another. The employees of the firm, however, put an emphasis on the fact that where you obtain that information does not matter:
“If you choose to cover that need with a local partner or to get local advisors or employees of the embassy to help you understand the local system of rules and regulations better - that is situation specific. But that there is a need to understand it, I think everyone can agree on.”

“At the end of the day - if you have a local partner that does that job on the development side or whether you do it by bringing in resources, that is an assessment that is done each time we enter a market.”

4.4.2 Local partners are often used as market openers

As mentioned, a local partner is often used as a market opener for the firm. This is often done to establish safety in the market. After the firm is established in the market and understands how things are done, there is no immediate need to use local partners.

“Yes, we have done many projects without a local partner. In South Africa we had a local partner in for the first projects, now that we have learnt we skip that part. The same is done in Argentina, we buy a project from a local developer, but they are not with us further in the process.”

There is a consensus in the firm that the most important use of local partners is that they have gathered all the right licenses etc. so that the firm can enter the market rapidly, while keeping it lean on the local level, and that building can start fast. The firm will usually choose projects that are close to 80% done before investing, as there is a high failure rate in the industry. The high failure rate is mainly based on the early stages of development which includes site development and permitting, system design, business case development and PPA negotiation.

“A big part of why we use a partner is because the failure rate is really high, around 1% of the projects we look into are successful and therefore we are really dependent on using the least amount of money until we actually know whether or not the project will succeed”
The firm does, however, sometimes enter via greenfield into new markets if there are no promising projects available, or if the government has specific rules regarding how the firm should enter, such as the case of Egypt. When they do so, they place an emphasis on the need to work closely with the local government so that the process of obtaining permits and licenses and other necessary means to developing a successful project will not hinder the project. In most cases, however, the firm enters via acquisition so that they have a smaller role in the project development stage. Once this stage is a success, the failure rate falls considerably.

4.5 The formal institutions in each market affect the establishment mode, the ownership structure and the type of partner - foreign or local

As discussed in section 4.3, the firm firstly looks at the stability of the local governments and their willingness and demand for solar power when assessing market entry. If these criteria are met, the firm looks at the availability of projects. Sometimes, however there are no locally developed projects because a lack of local competence. This is especially the case in markets that are lagging behind on development. If the firm finds a locally developed project, they need to assess whether the local partner/project is a good match for the firm. The markets with higher cultural and institutional distance seem to have a lower availability of local partners/projects, which affects the partner choice part of the entry mode decision for the firm and subsequently the establishment mode. Additionally, the ownership structure of the SPV is affected by the formal rules and requirements of each market.

4.5.1 The formal institutions can affect the establishment mode into the market

When there is willingness and demand by the government, the firm enters either through an acquisition of local developed projects, or through a greenfield mode with partners on the equity side:
“In Egypt, we have basically entered without a local partner, because the government started a tender where they had 50 projects and asked everyone to bid on them and the government would fix everything else for us.”

The acquisition of locally developed projects, and the subsequent establishment of a SPV with joint equity ownership, is the preferred mode of entry by the firm so that all of the licenses and other permits are already obtained by a local developer from the government. The reason that this is their preferred mode of entry is tied to the time and resources that are needed in the beginning of each project in the development stage, which the firm tries to avoid as discussed in section 4.1.2. However, when the government has put out a tender with the promise to secure all the licenses there is less risk associated with these processes when the government is involved in the kick-off of the project, and the firm is therefore more willing to enter via greenfield investments.

4.5.2 Formal institutions lay the rules and requirements for ownership structure

The firm mainly operates in emerging markets. Injecting FDI into these markets often comes with a requirement to include local content, such as local ownership and the development of a local workforce. Although the firm is located in many parts of the world, a common denominator is that the majority of their projects are in less developed parts of the world. The very fact that they operate mainly in these markets, while they have their HQ in Norway, means that they are operating in countries that are culturally and institutionally “distant” to that of their home market. Regardless of distance measures, each country has its own regulations related to land permits, building regulations and requirements for local ownership in foreign set-up businesses. These rules and regulations need to be followed when entering a new market.

“Ideally, we want to buy the local out and just give them payments when each goal is met. But often these firms have an ambition to become a big company, so they would like to have an equity stake. We try to avoid it, but often there is no way around it”
Employees of the firm explicitly say that they do not need, or necessarily want, the local partner to stay on board on the project after the completion of the development stage. The information the local company brings are the things that are needed in the early phases of development, before the firm has entered, such as the investment in time and resources in obtaining the necessary permits and licenses. Whenever the firm uses a local partner after the early stages of development of the project it is often because 1) there are country regulations that require it, or 2) the local firm has requested to stay onboard.

1) “Often it is regulated by the government. For example, in South Africa, 40% has to be owned by a South African firm. In Malaysia, 51% has to be owned by a Malay.”

The rules for ownership structure vary for each country the firm operates in, and the firm needs to follow these rules in order for the FDI to be approved. The firm prefers to have the majority stake in the SPV, but some countries have rules that requires a local firm to have the majority stake. In this situation, the firm places an emphasis on the need to maintain control of operations through the SPV contract, which will be discussed further in section 4.5.

2) “If there is a local partner, a truly local partner, that comes out of a situation where there is a local company that has developed a project and wants to continue to be a part of operating or owning the project.” Sometimes the firm therefore has no other choices than to grant some ownership to the local partner, as they may not sell the project to the firm unless they are allowed to stay onboard further in the project.

In the markets where the local partners - the project developers - stay on with an equity stake in the SPV company, it is because they demand to do so in order for the firm to buy their project in the first place.

“Essentially I believe that it is better to buy something that is almost completed, remove the partner, and do it ourselves.”
4.5.3 Less developed markets have less local competence available

An important consideration when assessing the different markets is that they possess potential projects that could be of value for the firm. The firm’s approach to market entry is project driven, meaning that they are often dependent on a project that has to some degree been developed by a local firm and that is considered to be reliable.

“In each country we start off with a project. Rarely we say that now we are going to enter this country and then we begin to look for possible projects. In order to allocate resources to a new country, we need a potential project that can become something.”

The governments’ wishes and requirements have an influence, as discussed, on the market entry decision of the firm. If the firm wishes to enter a market where there is political willingness but no tenders, the most natural entry mode would be through an acquisition of a local project. However, in markets that are more culturally and institutionally distant they have experienced that there are fewer to none available partners, because the competence has not yet been developed. This requires the firm to enter using a greenfield mode rather than an acquisition.

“We entered the market in Mozambique and there were few local partners, low local availability of capital (cash), and little local knowledge. The same happened in Rwanda. They (the locals) know how to move in that market. Because we are pretty blank to how things work the first time we get there. Therefore, we need to bring someone in that we can feel secure about”.

In Mozambique, the firm did not buy the project from a local developer as they usually do because of the lack of good projects and subsequently potential partners. The firm does, however, have equity investment in the SPV firm by a local energy company, EDM, which deals with the generation, transmission, distribution and sale of electricity. So although there are no locally developed projects and subsequent local partners, they managed to find a partner that had local knowledge of how to obtain the required permits and licenses.
4.6 The cultural factors of the market may put restrictions on the type of partner - foreign or local

When the firm wants to make an investment in a new market, they place an emphasis on the need for the project to be presented in a good way. This is often so that the community and the government have a good impression of the firm. Additionally, compliance is at the core of the firm’s values, and the standards of compliance vary significantly from culture to culture.

4.6.1 Norms and values of the culture may affect ownership structure for reputational purposes

“Using local partners makes other think: “OK it’s not only the international giants that burst in, but they are actually developing the local workforce and competence” - That is an important part of it all.”

The local partner is not only used as a market opener but is sometimes a tool to get a good reputation in the market. Although the firm could manage to replicate its business model in these markets and to use a passive equity partner, they may still want to involve a local partner in order to present the project in a desirable way:

“To bring a local partner along is a good way to get local governments and local workforce etc. Especially since we are in the emerging markets there is a lot of emphasis on that the investments done with local content is an important part of how it should look and be presented.”

Therefore, doing so is sometimes not only due to the formal institutions rules and requirements, but rather on the reputational purpose of bringing on a local partner. A good reputation can be obtained by following the country’s norms and values, and a local partner can be used as a means to succeed in doing so.
4.6.2 The match of the partner is dependent on its emphasis on compliance

“All the countries in which we operate are at the bottom of the transparency-index. So they are really corrupted. We therefore do a risk evaluation for each country. The first area is that of partners.”

Different standards of compliance are often tied to different cultures and its subsequent social norms regarding compliance. One of the firm’s core values is its emphasis on the same compliance everywhere they operate. When it comes to finding the right local partner, the firm therefore uses strict background checks, not necessarily with a clear structure, to ensure compliance, that company is not involved with corruption, that they are a “commercially accepted respected partner”, and that they overall have a good reputation in the community. The firm uses in particular two programs to screen the potential partners by looking deeper into company name, the owners, the board, employees, management etc. They get a red flag if the company has been either suspected or convicted for corruption or other criminal activities, such as child labor, or if they find more than two negative news articles about the company from respected newspapers. This is extremely important to the firm as a compliance fiasco could potentially bankrupt them. The reason behind this is that they have good deals worked out with development banks and other actors, which grants them non-recourse finance. Non-recourse finance means that the mother firm will not be hurt if something happens to the SPV firm. Without access to this type of finance, the firm would not survive.

“So, we are very cautious before entering with a partner and we do a very thorough investigation not only of the project and the whole process that underlies the project that is there and the partner, and management of that partner company and the owners of that partner company”.

5.0 Discussion

In the following chapter we will interpret and describe the significance of our findings in light of the current literature on the topic. The chapter will be
structured in the following way: Firstly, we will go through the main arguments in the literature regarding how cultural and institutional factors have an effect on the entry mode decision. This will be discussed in the light of our findings. Secondly, we will argue that the commonly used determinants of entry mode need a re-visititation, as our findings show that this case clearly deviates from these determinants. Lastly, we will call out for the need for a more nuanced discussion about the topic which became apparent through our findings. The nuances we call out for is the need to place more emphasis on the country context, the need to make the discussion more industry-specific, and the need to differentiate between the use of a local or non-local partner when using a JV as the entry mode in a new market.

5.1 The main arguments in the literature

As discussed, the two main arguments to the effect of distance on entry modes are as follows:

1. Higher cultural distance (Kogut & Singh, 1988; Kim & Hwang, 1992; Erramilli & Rao, 1993) and institutional distance (Xu & Shekar, 2002; Xu et al., 2004) leads to a need for cooperative arrangements to share control and gain flexibility.

2. Higher cultural distance (Padmanabhan & Cho, 1996; Anand & Delios, 1997; Chen & Hu, 2002) and institutional distance (Gaur & Lu, 2007; Estrin, Baghdasaryan & Meyer, 2009) leads to a need for tighter control and therefore higher ownership.

The two school of thoughts have been tested repeatedly and researchers continue to find equivocal results regarding the influence of cultural and institutional distance on the entry mode choice. We acknowledge that the literature presented here is quite old, however, as explained in the theoretical groundwork in section 2.5, the newer literature is more focused on testing the arguments from the older literature to find answers on the equivocal results that have often been found. Our findings, however, highlight two main points. Firstly, the industry structure and the firm characteristics dictate the entry mode choice, and the firm uses the same entry mode for each market. Secondly, cultural and institutional factors influence
variations within the particular entry mode, such as the establishment mode, the ownership structure, and the type of partner the firm uses. We argue, however, in line with Harzing & Pudelko (2016), that a more meaningful way of viewing the cultural and institutional distance is by looking at the specific country context in each market, such as government regulations regarding investment restrictions, the level of economic development and the lower availability of capital and local knowledge. Lastly, we found that some institutional factors, such as the political stability of the country and the local government’s demand for solar power can affect the market entry decision. These points will be discussed below.

5.1.1 The industry structure and the firm characteristics dictate the entry mode choice

5.1.1.1 Industry characteristics
The industry in which the firm operates is characterized by a high emphasis on timeliness of delivery of energy. Firms are harshly punished if the energy is not delivered by the time stated in the PPA. Because of this need for a timely delivery of the project, firms cannot waste time on different wants and beliefs when it comes to the decision-making in the SVP. It is therefore important that one firm has the ultimate decision-making power and control so that all decisions are made quickly and without dwelling. Secondly, the industry is one of high failure rate. For a firm of a smaller size, it is therefore impossible to operate in the industry if they do not reduce their resources in each project. From the interviews we are left with the understanding that resource reduction through using a joint venture structure is not grounded in the risk of each market, but rather because of the overall risk in the industry which is mainly tied to the early parts of development.

5.1.1.2 The firm’s use of partnerships in all markets
The firm’s growth strategy is based on being lean in each market. This is achieved by investing fewer resources by using the joint venture entry mode with co-equity partners. By doing so, the firm reduces how much they are exposed to risk in each project to a minimal level. From the interviews, it was clear that the firm had no intention of entering markets with a wholly owned subsidiary regardless of their
ability to do so in the future as they were not interested in taking over additional parts of the value chain. We recognize, however, that the firm’s strategy is based on serving emerging markets that are all quite culturally and institutionally “distant” from Norway. Regardless, the entry mode does not change from the most similar market, South Africa, and the next to least similar market, Ukraine (see table 1). In both these markets, the firm entered via acquisitions of locally developed projects and then set up a SPV with joint ownership. In the least similar market, Egypt, they had a slightly different entry since the government had put out a tenure for available projects. They do, however, have a SPV with co-equity holders in this joint venture as well.

5.1.2 Cultural and institutional differences affect variations of ownership structure and partner choice, within the given entry mode

5.1.2.1 The market requirements for entry mode

Although the firm wants to keep their entry mode similar in each new market because of their business model and the industry characteristics, they do have to alter the ownership-stake in the joint venture, and the partner characteristics (local or foreign) depending on each markets’ specific rules, regulations and characteristics. Additionally, the establishment mode choice, acquisition versus greenfield is influenced by the availability of locally developed projects and the rules of the local government. Firstly, in some markets there is a requirement for a local partner to have the highest equity-stake in the joint venture. This makes the firm the minority shareholder, which is not their preferred mode. They do, however, make sure to regain the control through financial and other instruments, as discussed in findings. Secondly, in some markets there is a limited, or no availability of locally developed projects. This can be due to a lack of competence in the market. This affects the firm’s ability to enter through an acquisition of locally developed projects. Lastly, we see that in the less developed markets, as is the case of the majority of the firm’s markets, there is often a need for local ownership for reputational purposes.
5.1.3 The influence of cultural and institutional aspects on entry mode

From the three points above, we argue that the firm does not fit into either of the two brackets that are so often described in the literature. Cultural and institutional factors do not have the effect of making the firm want either a higher or lower ownership mode of entry. The choice is, however, based on the industry characteristics, the firm characteristics and the specific market characteristics. Although cultural factors do not seem to have a large effect on the entry mode decision for this specific industry, we do see that some variations within the entry mode are affected by cultural factors. The need to follow certain norms and values by partnering with local firms to create local content, such as a local workforce, stem from cultural values of some markets. The reputational purpose for partnering with local firms is therefore tied to conforming to cultural influences. Furthermore, institutional elements, such as the country’s rules and regulations, have a great effect on variations within the entry mode as it dictates the ownership stake of the JV, and may, in some markets, decide whom the firm will partner with. As discussed, the stability of the political system and the demand for solar power of the local government affects the market entry decision for the firm, but not the entry mode decision.

5.2 Determinants of entry mode - a need for re-visitation?

As discussed above, it was clear in this case study that some factors, mainly the industry and the firm-level preferences related to risk and decision-making, had the strongest effect on the entry mode choice. We also discussed that the cultural and institutional factors did not have an effect on the entry mode choice. We will in this section review some of the arguments from the literature in light of our findings.

5.2.1 Control

Many theorists within the topic of entry modes argue that one of the main benefits with a wholly owned subsidiary is that the firm has the ability to maintain control of the host-country operations with absolute decision-making authority (Hill et al., 1990; Argarwal & Ramaswami, 1990). From our findings, however, we have consistently found that the firm maintains absolute decision-making authority and
control of operations through either having the highest equity stake, through explicitly stating in the contract that the decision-making power lies with the firm, through occupying the most important positions in the SPV, or through a mix of the above. The firm is always the stakeholder in control, which is extremely important to them because of the importance of timeliness of delivery of each project. From our findings, we have also seen that the partners often have no interest in being in control but are more effectively passive investors. Some local partner firms, however, do want to stay on board as equity owners, they are, however, not granted control of decision-making.

5.2.2 Risk and resource commitment

Argarwal & Ramaswami (1992) argue that firms are less likely to enter markets by direct investment if the markets show large risks. They do not, however, explain which markets show “high risk” and what this risk is based on. In our findings, the firm puts a large emphasis on the fact that they pursued high risk markets and that this was an important part of their overall business model. Pan & Tse (2000) argue that that firms may be reluctant to commit much resources if the perceived risk in the foreign markets is high. This is somewhat in line with our findings since the firm operates in so-called high risk markets and try to reduce their resource commitment to a minimal when entering a new market. The firm, however, emphasizes that this is an industry-characteristic rather than a market consideration. The argument is based on the fact that operating in this particular industry indicates a very high failure rate, and that one cannot invest much resources until one is almost certain that the project will be a success. We are therefore quite certain, from interviews with employees of the firm, that the firm would still invest low levels of resources in markets with a lower risk and that the link that has been presented in the literature needs to be nuanced to what industry/industries are being studied.

Previous literature often, as discussed, argue that firms need to reduce risk due to cultural and institutional differences between the host and the home market. An important finding is that the need to reduce risk is, in this case, mainly due to the industry characteristics. This case study cannot make inference for how this is for other industries; however, the finding leads us to argue that the discussion needs
to be more nuanced to untangle these complexities. In this particular firm we see that the main focus is on the financial risk. The firm replicates its model in each market, and the cultural and institutional factors are not evident to have an effect on their entry mode. An interesting finding, however, is that the markets that appear the most *institutionally distant* from Norway, the least developed markets in which the firm is operating, have less developed local competence, capital available and infrastructure. This hinders the firm’s ability to enter through acquisitions of locally developed projects, as these projects are simply not available because local firms have not started the development of solar projects or that there are no local firms in this particular industry. Although the firm still enters through establishing a SVP with equity partners, in other words a joint venture, they do so through the establishment of a greenfield operation instead. We therefore argue that while the cultural and institutional factors do not appear to have an impact on their *entry mode*, they can to some extent impact the *establishment mode* of the firm.

Another risk that is being talked much about in the literature (Hill et al., 1990; Agarwal & Ramaswami, 1992) is that of dissemination risk. From the interviews we found no concerns regarding dissemination risk. The firm does not develop their own technologies, and the employees considered their competitive advantage to be based on their ability to design a financing and project-structuring package in a unique way, with speed and agility as important determinants. This is considered to be difficult to replicate. Even though other MNEs and potential competitors like Equinor learn how the firm is operating, factors like firm size will hamper their ability to operate quickly enough. Therefore, they are not afraid of their partners tapping into their knowledge base.

5.3 The need for a more nuanced discussion

5.3.1 The need to place more emphasis on the country context

Our findings showed that the country contexts had a higher influence on the entry mode decision, and especially the establishment mode, than that of cultural aspects. This, however, is not reflected in the current literature where the discussion is mainly based on cultural factors. Welch et al., (2018) argue that
formal institutions have a significant influence on a company’s mode of entry and operations. Indeed, Harzing (2016) found that governmental investment restrictions is the single variable that has the most direct relationship to entry mode choice. As discussed in section 2.5.1.4, the host country context, such as government restrictions, political risk and the level of economic development are often not included in entry mode studies, but these characteristics are highly correlated with the distance measure. For example, Harzing (2016) emphasizes that a lower level of economic development leads to more use of greenfield investment over acquisitions. In studies in which the variable of economic development is not included, this may be attributed to a higher cultural distance.

We found, however, Harzing’s (2016) argument to be in line with our findings; the firm entered markets with high distance through greenfield investments. This was, however, explained by the low availability of locally developed projects due to a low economic development in the country, not because of a high difference between the home and the host country. For example, Mozambique is considered to be more similar to Norway than Ukraine when looking at the Hofstede dimensions, but both markets are amongst the least similar to Norway (see table 1). In both of the markets, the firm used a JV entry mode, but the establishment mode differs. In Mozambique, there were no local developers, and the firm had to enter through greenfield establishment. In Ukraine, however, there were local developers and competence present, and the firm entered through acquiring projects. This highlights that although distance measures deem one market as more similar, the market may differ in other areas, such as economic development, which seems to, in this case, have a larger effect on the establishment mode than that of distance measures.

Additionally, we have seen that in markets with rules regarding the ownership stake of local firms, the firm has to enter the market with a lower equity stake than they often wish to. They explain, however, that this is only a formal requirement that needs to be done a certain way in theory, but that in practice it does not work like that. In markets in which this is the case, the firm makes sure to still have control and decision-making authority by different financial- and operational instruments. As discussed, the investment restrictions were the single variable with the most direct relationship to entry mode choice. This is clearly in line with
our findings, as the firm has no choice but to follow each country’s rules and regulations.

The firm enters mainly countries that are culturally distant, but it seems as though the variations within their entry mode choice, such as the establishment mode, ownership structure, and type of partner, is contributed to the government investment restrictions, and the level of economic development in each market. Our findings are therefore in line with the argument of an over reliance of the concept of cultural distance, as the Hofstede distance measures did not seem to have a strong influence on the firm’s decisions.

5.3.2 The need to make the discussion more industry-specific
As discussed, cultural distance has been used to explain a wide range of MNE strategies, such as the choice of entry mode into a foreign market (Shenkar, 2001). The main argument is that the higher the distance, the ability of the MNE to operate effectively in the host country decreases. These difficulties stem from the lack of understanding the norms, values and the underlying institutions that we expect to see in countries with a high cultural distance from our home market. From the interviews and the secondary data gathering, however, we find that the firm uses the same modes of entry in markets that have higher and lower cultural distance from their home market (Norway). From the literature, and especially highly-cited meta-analysis of the effect of cultural distance on entry modes, such as Harzing and Pudelko (2016) and Maseland et al., (2018) we see that about a third of all studies find one particular effect, another third found the opposite, while the last third found no effect. We must point out that in our particular case study, the firm mainly operates in markets that can be considered as having a high cultural and institutional distance from their home market. Although some markets are not too distant, such as South Africa, they are further in cultural distance than many other European markets. Apart from this, the firm falls in the group where cultural and institutional distance has no effect on the entry mode choice. It seems as though there is an overemphasis on the effect of cultural differences on the entry mode choice, or at the very least that the discussion is not nuanced enough.
One way in which this discussion can become more nuanced is by discriminating between industries, although some researchers do (Quer et al., 2017; Kogut & Singh, 1988, Lopez-Duarte & Vidal-Suarez, 2010), they mostly differentiate only on one industry variable, manufacturing or service firm. However, this discussion could benefit from a narrower differentiator. To highlight an example; Lopez-Duarte & Vidal-Suarez (2010) used a database collecting FDIs by wholly owned subsidiaries and joint ventures carried out between 1989 and 2003 by Spanish companies. The database was then divided into two different subsamples depending on the language differences between the home and the host country. Their results point out to a preference for JV over WOS when the FDI environment is characterized by high cultural distance. Despite this, they stated that when differences in language between the home and the host country did exist, the companies did not see it as effective to share a venture with a local partner to reduce external uncertainty. However, they acknowledged that the results could not be considered conclusive due to features of their sample. Their sample showed an over-representation of service firms, as well as entries into Latin American countries, which is not considered to be of great cultural distance from the home country (Spain).

From our findings it is made clear that the reason behind the company’s need for control and low resource commitment is because of the specific industry-characteristics which are painted by the need for rapidity and high failure rates. By defining the firm as a manufacturing or service firm in the traditional sense, it will not capture the specific reasoning behind the entry mode choice. As we see from the research by Lopez-Duarte & Vidal-Suárez (2010), nuancing for service firms, does not necessarily provide conclusive results.

5.3.3 The differentiation between use of local or non-local partner

One important nuance that we are missing from the most cited studies on the effect of cultural and institutional aspects on entry modes, is that of the differentiation between a local partner and other partners. The differentiation is important because what the partners bring probably has some explanatory power over the way in which a partner is used for getting market insight and knowledge.
Powell (1990) argues that a local partner provides the joint venture with local legitimacy, market knowledge, governmental and industry contracts. This has been cited by many entry mode researchers, and the argument is, in our case, somewhat true. The importance of the points, however, should be more nuanced for our particular case. Firstly, the governmental and industry contracts is of high importance to the firm and why they often acquire locally developed projects, since these local firms have usually gotten most relevant permits and licenses needed for the next stages of the project. As seen in our findings, it can be quite difficult to know how, and by whom, these different permits and licenses should be acquired. By allowing a local developer to acquire these, the firm can come in at a later stage and does not have to learn how to navigate their way through the market in order to reach the next stage of development. Secondly, getting local legitimacy was an important factor for the firm when using local partners. The reasoning behind this was partially due to the fact that they operate mainly in emerging markets where using local content in their investment is an important part of how the project is presented to the government and outward. Lastly, however, the argument of getting market knowledge is a different matter for the firm. The firm consistently argued that they used different channels of gaining market knowledge: embassies, The Ministry of Foreign Affairs (Utenriksdepartementet), their networks of partners who have experience from the particular market, local attorneys and consultants, and sometimes, local offices. Employees of the firm argued that the input of local market knowledge from local firms is minimal, and that the local market knowledge they do provide is limited to the early stages of development that happens before the firm is involved in the process.

6.0 Conclusion

The aim of our master thesis has been to contribute to the understanding of how cultural and institutional factors affect the entry mode choice of multinational enterprises. Most papers written in the last three decades have included a measure for cultural and institutional factors, however, previous research has provided equivocal results. Therefore, we have attempted to fill this gap in order to alleviate our understanding of the relationship between cultural and institutional factors and
the entry mode choice. This has been done by conducting a case study on a Norwegian based MNE operating in a highly complex industry. Interviews with the firm’s employees and secondary data has laid the foundation for our findings, which has furthered been analyzed and discussed in a separate part of the paper.

Based on our findings we argue, in accordance with the literature, that when entering a new market, there is an emphasis on understanding cultural and institutional aspects of the particular market. Information about the market is however gathered through various sources, such as embassies, the Foreign Ministry of Affairs, the firm’s network and banks, and to a less extent from a potential local partner. This shows that gaining an understanding about the rules, norms, and values of the market is important. It does not, however, in this specific case affect the entry mode of the firm. The firm always enters new markets through various types of partnerships (JVs), to drive down the resource commitment in each market and to enter the market when the failure rate has dropped, which happens at around 80% of completion of the development stage of the project. Whether the partner is a foreign or a local company depends on the rules of the local governments, and on whom has the best project available.

We therefore conclude that the industry characteristics and the firm-level preferences dictate entry mode choice of the firm. We do, however, recognize that certain variations within the particular entry mode, the joint venture, is due to cultural and institutional factors. We argue that formal institutions affect the ownership structure of the joint venture, and the establishment mode of the firm, whether a greenfield or an acquisition. Additionally, the rules and regulations of the country can put restrictions on whether the partner firm is a local or a foreign player. The effect of cultural aspects is subtler, but the firm places an emphasis on the need to sometimes partner with a local player for reputational purposes.

There are multiple explanations to why the current literature struggle to explain the cultural and institutional aspects’ effect on entry mode. Our main argument, however, is that the reasoning behind the equivocal results is that the studies rarely control for industry characteristics further than differentiating between service and manufacturing. We have seen that the industry characteristics has a
large effect on the choice of entry mode in the case of Scatec Solar, as the industry failure rate is extremely high at the early stages of development, and that the firm therefore prefers to enter through partnerships when the projects have reached around 80% of development. Another key point is that many of these papers are quantitative in nature. Although it can seem as though cultural and institutional factors have one affect or another on the entry mode choice, we simply do not know whether this is actually the case or whether there are other underlying factors that steer this supposedly relationship. In our case, if used in a large quantitative sample, it would show that the firm uses JVs in markets which are culturally and institutionally distant from the home market. The firm, however, uses this particular entry mode for resource and risk reduction in each market, not because of a need to share control and to gain market knowledge, which is, as discussed, often the main argument in the literature.

6.1 Limitations and Future Research

The context in which this thesis has been studied implies certain limitations. One of the limitations is the narrow timeframe for writing our master thesis. This is a broad topic that has received a lot of attention and equivocal results, meaning that there are much more interesting aspects to investigate more thoroughly. However, in this case our research question of how cultural and institutional aspects influence the entry mode decision of a MNE has been adequately answered. Another limitation is the number of participants in this case study. A total of six interviewees participated in this study, which could be considered relatively few in a single case study. However, as we have already argued, the participants were chosen based on their position in the company and the region they were working in, meaning that we covered all the company’s regions, and all participants had been active in the entry mode decision in their particular region. We also interviewed one person with a detailed overview of the company and its decisions, which provided us with an additional confirmation of the information we had already received. As we have already mentioned, after six interviews we reached saturation, meaning that this was sufficient to make a valuable contribution to this field. This allows us to justify our decision of number of participants.
In this paper, we extend the research on the influence cultural and institutional factors have on entry mode decisions, a topic that has been acknowledged as highly complex. In this particular case, we found that cultural and institutional factors did not affect the entry mode choice. We did find, however, that these factors had an effect on the establishment mode, the ownership structure, and the type of partner used. Thereby, this case study contributes to the existing literature by providing a deeper understanding of this topic. Early on in this paper, we highlighted several issues that have been present in previous studies and that has resulted in inconsistent findings. These issues should be taken into consideration in future research on the subject. Further, our findings highlight industry characteristics and firm characteristics as important determinants for entry mode. We encourage scholars to do more research on this particular subject to gain greater insights across industries.
7.0 References


8.0 Appendices

Appendix 1
Interview Guide (in Norwegian)

Innledningsspørsmål

- Hvor lenge har du jobbet i Scatec Solar?
- Hvilken stilling har du?
- Hvilke markeder har du vært med på å vurdere inngang inn i?

Prosess

- Kan du forklare kort om prosessen når Scatec Solar vurderer inngang i nye markeder?
- Hvor lang er prosessen?
- Deltar dere i de samme delene av verdikjeden i de ulike landene?
- Hva er de ulike fasene dere går gjennom?
  - Hvem er med på å bestemme?
  - Hvem tar del i de ulike fasene?
- Når begynner dere å vurdere inngangsstrategi – altså om dere skal gå inn alene eller med en partner?
  - Foregår dette tidlig i prosessen eller etter dere har bestemt hvilket marked dere skal inn i?

Faktorer som påvirker valg av inngangsstrategi

- Hvor viktig er det å forstå forskjeller i markedene?
  - Hvordan får dere tak i forskjellene?
  - Hvordan sikrer dere at dere får riktig forståelse?
  - Ved hjelp av en lokal eller ved egen research?
- Hvilke faktorer ser dere på?
- Hvilken informasjon leter dere etter?
- Er dere i noen markeder som oppleves som mer risikofylte enn andre?
  - Hva er det som gjør at dere anser dem som mer risikofylte?
  - Hva gjør dere da?
Valg av partner

- Der dere har lokale partnere – hva er grunnen til det?
- Hvordan velger dere partner og hva legger dere vekt på hos de eventuelle partnerne?
- Er det store eierskapsforskjeller mellom partnerne i de forskjellige markedene?
- Hvor viktig er det at dere sitter med kontrollen?
- Har dere tiltak på plass for å forsikre at partnerne deres ikke «stjeler» deres teknologi?
- Hvorfor velger dere noen ganger å gå inn uten partner?
  - Er det forskjell på de markedene?
  - Hvis ja, hva er forskjellene?