



# Hofstede, Schwartz, or managerial perceptions? The effects of different cultural distance measures on establishment mode choices by multinational enterprises

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## Abstract

In recent years, scholars have become increasingly critical of Kogut and Singh's [(1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19(3), 411–432] cultural distance index and of Hofstede's [(1980). *Culture's consequences: International differences in work-related values*. Beverly Hills: Sage Publications] underlying national culture framework. We therefore examine and compare the effects of five cultural distance measures on the choice by multinational enterprises (MNEs) between expanding abroad through greenfield or acquisition. Two of these measures are based on Hofstede (1980), another two on Schwartz [(1994). Beyond individualism/collectivism: New cultural dimensions of values. In U. Kim, H. C. Triandis, C. Kagitcibasi, S. C. Choi, & G. Yoon (Eds.), *Individualism and collectivism: Theory, methods, and applications* (pp. 85–119). Thousand Oaks: Sage Publications; (1999). A theory of cultural values and some implications for work. *Applied Psychology: An International Review*, 48(1), 12–47], and one on managerial perceptions. Analyzing a sample of foreign expansions by Dutch MNEs and controlling for other factors, we find that high scores on all cultural distance measures significantly increase the likelihood that MNEs choose greenfields, and that the explanatory power of the Hofstede and Schwartz-based measures is comparable, while that of the perceptual one is somewhat lower. We

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conclude that it may thus be premature to dismiss Hofstede's work as outdated or as inaccurately reflecting national cultures, and to consider Schwartz's framework to be superior.

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## 1. Introduction

In the last few decades, international business (IB) research has made extensive use of the concept of national cultural distance to explain the expansion behavior and affiliate success of multinational enterprises (MNEs) (see Shenkar, 2001 for an overview). National cultural distance can be defined as the extent to which the shared norms and values in one country differ from those in another (Chen & Hu, 2002; Hofstede, 2001; Kogut & Singh, 1988). One stream of IB research that has often included cultural distance as an explanatory variable is that on foreign entry mode choices by MNEs (see Harzing, 2003 for an overview). Most studies in this stream have measured the cultural distance between an MNE's home country and the target country of the expansion through Kogut and Singh's (1988) index, which is based on Hofstede's (1980) dimensions of national culture. Although scholars have become increasingly critical of this index and of Hofstede's underlying work (e.g., Schwartz, 1994; Shenkar, 2001; Steenkamp, 2001), foreign entry mode studies have continued to rely on them, since little progress has been made in developing reliable alternatives. We aim to break this status quo by examining and comparing the effects of five measures of cultural distance on the choice by MNEs between expanding abroad through greenfield investment or acquisition, the so-called 'establishment mode choice' (Padmanabhan & Cho, 1995). Two of these measures are based on the work of Hofstede (1980), another two on that of Schwartz (1994, 1999), and one on managerial perceptions, and we test their effects in a sample of foreign expansions by Dutch MNEs. Controlling for the effects of other variables affecting MNEs' establishment mode choices, we find that high scores on all measures significantly increase the likelihood that MNEs choose greenfields and that the explanatory power of the Hofstede and Schwartz-based measures is comparable, while that of the perceptual one is lower. This leads us to conclude that it may be premature to dismiss Hofstede's (1980) work as outdated or as inaccurately reflecting national cultures, and to consider Schwartz's (1994, 1999) more recent framework to be superior.

The next section reviews the frameworks that form the basis for our cultural distance measures. We then discuss the relationship between cultural distance and establishment mode choices by MNEs, our empirical application. In the methodological section that follows we describe our data sources, the operationalization of our variables, and the statistical method we used. We then present our empirical findings and discuss them in a subsequent section. The final section concludes and offers suggestions for future research.

## 2. Cultural frameworks

### 2.1. Hofstede's dimensions of national culture

Hofstede (1980) analyzed survey data on work-related values obtained between 1967 and 1973 from more than 117,000 IBM employees working in 40 different countries, and found

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