Institutional distance influences on the multinational enterprises (MNES’) ownership strategies of their affiliates operating in an emerging market

Tulay ILHAN NAS

Building on Scott’s (1995, 2001) three pillars –cognitive, normative and regulative–, this paper examines how the institutional differences between the home and host country influence the entry strategies of the multinational enterprises (MNEs). Based on a dataset of 3716 foreign affiliates in an emerging market, this paper explores the entry mode (ownership structure) of the MNEs from 49 different home countries over the period 1995 to 2003. The effect of the institutional distance on the entry strategies of the MNEs is tested through binominal logistic regression analysis in which a series of the indigenous and endogenous control variables are taken into account. The findings show that the cognitive distance factor is more important than either the normative or regulative distances in influencing entry strategies of the MNEs. Moreover, the results show that the entry mode of the MNEs are explained in light of the economic crisis, the international openness of the home country of the MNE and the size of the foreign direct investment operating in a country as well as the institutional distance.

Key words: Institutional distance, entry strategies, emerging markets, Turkey.

INTRODUCTION

The focus of the present study is on the examination of the effect of the institutional distance between the home and host countries on the entry strategies of the multinational enterprises (MNEs) from the point of view of an emerging market. International entry modes represent the most researched field in international management (Griffith et al., 2008). Despite extensive interest by scholars and practitioners, only a few studies provide the explanation of the effects of the institutional environment on the entry modes of the MNEs (Demirbag et al., 2009; Huang and Sterneck, 2007; Dacin et al., 2007; Kaynak et al., 2007; Meyer and Nguyen, 2005; Lu, 2002; Yiu and Makino, 2002; Davis et al., 2000). Most studies that explain the entry mode of the MNEs have followed transaction cost theory (Zhao et al., 2004; Brouthers and Brouthers, 2003; Chang and Rosenzweig, 2001; Makino and Neupert, 2000; Mjoen and Tallman, 1997; Erramilli and Rao, 1993), internalization models (Pease et al., 2006; Gilm et al., 2006) or Dunning’s eclectic paradigm (Dunning et al., 2007; Dunning, 2006; Somlev and Hoshino, 2005; Pan and Tse, 2000). However, whether or how the entry strategies (ownership structure) of the MNEs are affected by the institutional distance has not been yet systematically examined. The present study focuses on how the MNEs respond to empirically the institutional distance from the affiliation-level entry strategies perspective.

Although Kostova et al. (2008) critique the using institutional theory in the contexts of the MNEs, Leung et al. (2005) and Redding (2005) point out that international business research should focus more on the context of institutions. Institutional theory has emerged as an alternative approach to explain the ownership-based entry mode strategies of the MNEs in host country markets (Davis et al., 2000; Demirbag et al., 2007) because it provides a rich theoretical foundation and important insights for examining entry mode strategies. Significant research has focused on the institutional distance concept and its importance to the MNEs across borders in recent years. Nevertheless, the distance research
This situation leaves a number of unanswered questions regarding the institutional distance and entry mode of the MNEs. Focusing on these gaps in the literature, this paper enriches an institutional-based view of international business strategy by providing a more comprehensive conceptual and empirical analysis of the relationship between institutions and entry strategies.

In the present study, we build on recent theoretical work by Scott (1995, 2001) and Kostova (1996) to extend the concept of distance by incorporating normative, regulative and cognitive elements (Kostova and Roth, 2002; Xu and Shenkar, 2002). Theoretical considerations suggest that strategic decisions in the MNEs may be affected in very different ways by the different dimension of the institutional distance. However, the MNEs’ responses to different institutional pressures have not been studied systematically. We investigate these responses for a key decision in the MNEs, the MNEs’ likelihood of entering by wholly owned affiliate or international joint venture; and we investigate the moderating effects of various indigenous and endogenous characteristics on the distance to mode relationship. The present paper attempts to extend our understanding of entry mode choice at the affiliate level by examining a broader concept of the institutional distance and separately the effects of the three pillars on the strategies of the MNEs, in an emerging market.

Previous literature on the MNEs suggests that there are significant differences between developed and emerging economies in terms of the investment environment and institutional factors that are likely to affect the MNEs’ strategic choices of international entry modes (Makino et al., 2004). An important characteristic of emerging economies is that market-supporting institutions are less developed, and thus constrain the MNEs’ strategic choices (Khanna and Palepu, 2000; Peng, 2003; Ramamurti, 2004). Institutional theory provides a framework to analyze the determinants of the MNEs’ strategies in such economies (Peng, 2003; Wright et al., 2005). The number of theoretical and empirical studies using an institutional perspective in emerging economies is limited (Meyer, 2001), even though some scholars have argued that this perspective is a leading theoretical foundation for explaining the MNE behavior in emerging economies (Meyer and Peng, 2005; Wright et al., 2005; Hoskisson et al., 2000; Luo and Peng, 1999). Canabal and White (2008) point out that Europe, China, and the United states were found to be the most common entry mode destinations studies, followed by Canada and various European and Asian countries, such as Japan and Great Britain. This study contributes the related literature by investigating the institutional pillars affecting entry mode choices of the MNEs to an emerging country such as Turkey.

There are a number of reasons for using Turkish context for analytical setting of this study. First, given the emerging nature of the market and the transitional characteristics of the institutional environment (Cavusgil et al., 2002), Turkish context provides a good case to test the effects of the institutional distance on the entry mode.

Besides, Turkey is an attractive country for global investors. Turkey is a large and dynamic market with a relatively high quality labor force and economic linkages advantage with easy access to regional markets (Tusiad, 2004; Tusiad and Yased, 2004; Erdilek, 2003). Turkey enjoys a very exclusive location at the crossroads between east and west, spanning both Europe and Asia. Its cultural, linguistic and geographical proximities to emerging markets in the Middle East and Central Asia create unique business opportunities. Turkey stands as the perfect gateway for the MNEs searching for business opportunities in the European Union, the Baltics, Caucasus, Middle East and Central Asia. Furthermore, there is a considerable business volume in terms of trade with Russia and the Turkish Republics. Turkey is also the largest economy in Eastern Europe, the Balkans, the Blacksea and the Middle East. It is the European Union’s sixth biggest trading partner. The US Government also designated Turkey as one of the ten big emerging markets in 2000s, characterized by high economic growth and a rapidly growing population (Garten, 1996). Its economic growth is outstripping OECD averages, while trade volume is also growing robustly reaching $277 billion as of 2007 (DTM, 2008).

Finally, the Turkish context provides an interesting research setting, characterized by attempts to become a more Western style market economy and ongoing membership negotiations with the EU (Demirbag et al., 2007). While Turkey’s process of modernization is accompanied by westernization (Yamak, 2006), her cultural values share some common dimensions with Arabic cluster (Kabasakal and Bodur, 2002).

CONCEPTUAL FRAMEWORK AND RESEARCH HYPOTHESES

One of the most important factor which was not investigated in numerous studies developed from the point of view of the different theoretical perspectives is the underlying institutional factors imposing on entry mode decisions (Davis et al., 2000). According to these theoretical perspectives, formal and informal institutions that the multinational enterprises (MNEs) face are much more than “background conditions” (Peng et al., 2008). However, North (1990) argues that institutions are typically defined as the “rules of the game in a society”, which include formal rules and informal constraints. In other words, the formal and informal rules of the game that significantly shape the strategy of the MNEs in the host are directly affected by institutional factors (Meyer and Peng, 2005; Meyer et al., 2009; Scott, 2008). In this
context, institutional theory (Scott, 1995, 2001; DiMaggio and Powell, 1983; Meyer and Rowan, 1977) indicates that in order to success, the MNEs must conform to the rules and belief systems prevailing in the environment. Because institutional isomorphism, both structural and strategic, will earn the MNE legitimacy (Dacin, 1997; Deephouse, 1996). In emerging market economies, institutions and institutional factors are particularly important (Peng et al., 2008) because institutional immaturity raises risk level (Child et al., 2003; Meyer, 2001, 2004; Meyer and Peng, 2005; Uhlenbruck, 2004). Host country related to factors and institutions have been operationalized for various purposes and found to have a significant impact on the success of foreign direct investments.

Applying institutional theory to the case of the MNEs highlights the unique institutional complexity that these organizations face (Kostova and Roth, 2002). The MNEs encounter with a multitude of different and possibly conflicting institutional pressures (Westley, 1993). They confront with the pressures of isomorphism which are diffused by the institutional contexts of the home countries and, at the same time, the effects of local environments to follow institutional systems in the host countries to ensure to achieve and maintain legitimacy in all their environments (Ferner and Quintanilla, 1998; Roszenweig and Nohria, 1994; Roszenweig and Singh, 1991; Pralahad and Doz, 1987). The entry strategy channel the external and internal isomorphic pressures exerted on the MNE for conformity and legitimacy (Xu and Shenkar, 2002). Therefore, the MNEs seeking to enter an emerging market must make an important strategic decision on which entry mode to use for that market (Agarwal and Ramaswamy, 1992). When entering an emerging market, the MNEs interact with a complex local context that also includes normative, regulative and cognitive institutions (Scott, 1995, 2001). MNEs have to adjust to both the home country and the multifaceted institutional environment of emerging host country where they operate (Henisz, 2003; Peng, 2003; Meyer, 2001), and this adjustment is more challenging, the more the host country environment differs from the MNE’s home territory.

While recognizing that the MNEs are also under pressure to conform to institutional contexts from their home country, this body of research tends to argue that the imperative to align with the institutional contexts of host countries is stronger when there are significant institutional differences between home and host countries (Davis et al., 2000). The more institutionally distant the host country is, the higher the degree of adaptation needed by the MNEs. This is because a larger institutional distance between the home and host countries requires the need to evaluate, learn and adapt more extensively to local institutional agents and norms (Ferreeira et al., 2007). Therefore, we suggest that the MNEs choose a more adaptive mode of entry such as the joint ventures than wholly owned affiliates in order to be able to manage the institutional distance. One of the key advantages that has been attributed to the establishment of joint ventures include reduction in liabilities of foreignness (Mezias, 2002; Zaheer, 1995) and the acquisition of external institutional legitimacy in the host country (Baum and Oliver, 1991).

In next step, to develop institutional approach, we decompose the institutional distance into its three component parts – regulative, normative and cognitive distances – and discuss the implications of three for the entry strategies of the MNEs. This paper argues that institutionalization is a process that works through all three pillars and that this process can legitimize a host market for the MNEs. However, our theoretical arguments suggest also that the impact of distance varies with different aspects of the concept of institutional distance and that this impact the decisions of the MNEs.

Institutional pillars

Regulative pillar

Among the three pillars of institutions, the regulative component has direct bearing on the MNEs strategies. The regulative pillar of an institutional environment reflects the ground rules for doing business, reflecting the laws and regulations of a region or country and the extent to which these rules are effectively monitored and enforced. This pillar reflects “the existing laws and rules in a particular national environment which promote certain types of behaviors and restrict others” (Kostova, 1997). Scott (1995, 2001) claims that legal regulations in the home and host country represent the strongest environmental pressures faced by organizations. Regulative institutional distance creates pressures for coercive isomorphism (Kostova and Roth, 2002). In terms of multinational strategies, host-country regulative institutions create pressures for local responsiveness to which the MNE subunits must conform to achieve external legitimacy in the host country although such pressures come at the cost of global integration (Doz, 1980; Prahalad and Doz, 1987).

For regulative isomorphic dimension, as predicted by institutional theory, the pressures from the state and other powerful organizations from both the home and host countries governments are the most direct source of isomorphic forces (Guler et al., 2002; DiMaggio and Powell, 1983). This is so because the governments of the home and host countries are organizations that control critical resources for the MNEs and the affiliates, especially those operating in an emerging economy to success (Kostova and Roth, 2002; Yui and Makino, 2002; Kostova and Zaheer, 1999). In emerging economies, especially whose national business systems are state-dependency, governments usually play a proactive role in governing MNEs' affiliates (Whitley, 2000; Hoskisson et al., 2000). In order to build and maintain external
legitimacy in these emerging economies, MNEs are likely to choose to follow the regulative policy of the host country (Sunchman, 1995; Rosenzweig and Nohria, 1994; Rosenzweig and Singh, 1991).

Within developed countries, the regulative environment has become more homogeneous. Market structures in these countries have impersonal exchange systems and strong third-party enforcement mechanisms (for example, laws, regulative agencies) and therefore, have strong and formalized institutional structures. A market-supporting institutional environment in the developed host country eases local market access (for example, by facilitating access to distribution channels). Many emerging market economies, on the other hand, with missing or weak formal regulative institutions, rely on informal institutions to facilitate exchange (Hoskisson et al., 2000; Peng, 2002). In this context, the MNEs confront with local incumbents from using relationships with governmental authorities to protect their markets. The MNEs confront harsher regulative burdens in emerging markets than developed countries (Peng et al., 2008). Therefore, where market institutions are weak, local partner may help in gaining legitimacy with local authorities. Forming the international joint ventures with the local firms is an attractive entry mode for the MNEs because of the opportunities to enlist strategic assets from local partners, to obtain local knowledge, to gain an introduction into local social networks and to gain the external legitimacy (Chen and Hennart, 2002). If the host country is especially an emerging country, the higher the regulative institutional distance, the lower the preferred level of equity because of the difficulties of obtaining legitimacy in the host countries. In other words, where perceived regulative institutional distance is higher, the MNEs prefer international joint ventures to wholly owned affiliates as an entry mode. This discussion suggests the following hypothesis:

$H_1$: If the host country is especially an emerging country, the greater the regulative institutional distance between the home and host countries, the more likely that the MNE chooses a joint ventures with the local partner over a wholly owned affiliate.

**Normative pillar**

Organizational structure and strategy are embedded in the institutional context of societal norms, assumptions and expectations that define socially acceptable organizational behavior (Scott and Meyer, 1994; Zukin and DiMaggio, 1990). Lewin and Kim (2004) suggested that formal constraints reflect the informal constraints. The normative pillar consisting of beliefs, values, and norms that define expected behavior in a society, has direct bearing on the MNE’s strategies (Xu and Shenkar, 2002). The institutional forces intertwine with the cultural forces (Wu et al., 2008). Hofstede et al. (2002) and Business Goals Network (2002) suggest that culture is “a substratum of institutional arrangements”. The culture can be seen as a part of informal institutions in the environment that “underpin formal institutions” (Redding, 2005). The normative pillar is often culturally driven (Scott, 1995, 2001), tacit understandings that are opaque to outsiders. Normative institutions are tacit and deep structures of a country that are difficult to sense and interpret particularly by outsiders (Kostova and Zaheer, 1999).

In most studies, the MNEs' strategic behavior was positively related to the normative distance, implying that as the normative distance increases, the difficulties facing the MNE processes overseas also increase (Johnson et al., 2006). The more normative distance between two countries are, the greater the differences in their responses to strategic issues (Schneider and De Meyer, 1991; Lane and Beamish, 1990; Kogut and Singh, 1988). The normative institutional environment is more important for the MNEs entering in an emerging economy than developed countries. Most emerging countries exhibit high collectivistic cultural values and practices (Hofstede, 1980, 1984, 2001). The importance of in-group mental maps in these cultures leads to differences in the treatment and perception of outsiders. The MNEs are seen as out-group. The prejudice against the MNEs from different country and low trust are more common in these cultures. Therefore, establishing legitimacy in these host countries becomes more difficult. One way to overcome the normative impediments in socially restrictive institutional environments is joint venture with socially legitimate local partners to gain social legitimacy in an emerging market and benefits from social reputations of the local partner. A high degree of normative distance between institutional contexts might led to need to local partner as the MNEs feel less comfortable with the possibilities of unknown approaches. Consistent with the related literature, the following hypothesis is formulated:

$H_2$: If the host country is especially an emerging country, the greater the normative institutional distance between the home and host countries, the more likely that the MNE chooses a joint ventures with the local partner over a wholly owned affiliate.

**Cognitive pillar**

The cognitive pillar rests on the cognitive structures embedded in a society; that is, the widely shared social knowledge and cognitive categories (for example, stereotypes and shared knowledge). As Kostova (1999) points out, “cognitive programs such as schemas, frames, inferential sets and representations affect the way people notice, categorize and interpret stimuli from the environment”, referring to these elements that have a taken-for-granted aspect. Decisions regarding entry mode may be limited by the cognitive distance. As the
cognitive distance becomes larger, establishing legitimacy in the host country becomes more difficult (Kostova and Zaheer, 1999; Kostova, 1999). In this context, the external legitimacy is likely to be problematic for an affiliate unless it has a local partner.

The effects of the cognitive institutional environment on the entry mode of the MNEs are not likely to be equivalent for both developed and emerging host countries. Developed countries possess well-structured, highly specialized and effective cognitive institutions, which smooth the process of the MNEs’ entry. Because these countries have more sophisticated markets and more developed domestic and foreign firms, it is likely that the MNEs entering these countries will base their advantage in some form of intangible resource and these MNEs are more likely to prefer wholly-owned affiliates to protect their advantage. In contrast, when the MNEs enter an institutionally emerging cognitive market, they are more likely to select joint venture entry strategies to uncover the possible hazards of taken-for-granted cognitive categories and hidden social knowledge.

H3: If the host country is especially an emerging country, the greater the cognitive institutional distance between the home and host countries, the more likely that the MNE chooses a joint venture with the local partner over a wholly owned affiliate.

As mentioned earlier, our theoretical arguments suggest that the impact of distance varies with different aspects of the concept of institutional distance. Constant with the related literature, we believe that the adaptation to local institutional pressures is more dominant for the normative and cognitive differences than the regulative differences. As such, the process of institutionalization is more deeply rooted in the cognitive and normative pillars than in the regulative pillar; although, the country’s institutional profile cannot stand without all three pillars operating effectively (Trevino et al., 2008). While regulative institutions are relatively transparent, norms and cognition require intensive cross-borders communication and are hard to comprehend and often tacit (Boyacigiller et al., 2004). The regulative pillar in the host countries is perhaps the easiest for the MNEs to observe, understand and correctly interpret because regulative institutions are codified and formalized in rules and procedures (Eden and Miller, 2004).

H4: The regulative distance between the home and host countries has likely less impact on the entry mode of the MNEs than the normative and cognitive distance.

RESEARCH METHODOLOGY

Country background

It is essential to understand the institutional environment in Turkey for analyzing the entry strategies of the multinational enterprises (MNEs) in this host country. Such an understanding will help to critically evaluate the emerging host country influences on the entry mode of the MNEs.

According to Hall and Soskice’s (2001) varieties of capitalism approach, the Turkish system comprises elements of both liberal market economies and the coordinated market economies. Turning to Whitley’s (1999) typology, which includes a wider variety of systems, the Turkish business system, particularly considering its historical development and early institutional elements, could be classified as a state organized business system where the business environment is typically dirigiste. Turkey has had basically a state-dependent business system that is characterized by a strong state actively coordinating and controlling economic activities (Onis, 1995; Bugra, 1994). Family-owned and -controlled business groups emerge as the dominant economic actor in the Turkish context (Amsden and Hikino, 1994; Guillén, 2000). Heper (1991) and Bugra (1994) suggest that state intervention in business relations has also contributed to the formation of an unstable business environment in the country. This unstable relationship between the state and firms encouraged the business groups to invest in multi-activity fields. However, Onis and Turem (2001) and Onis (2002) argue that especially some entrepreneurs are encouraged to invest in protected sectors. The MNEs engaging in joint ventures with local businesses prefer to particularly these business groups although, there is not any legal obligation (ISO, 2008; Demirbag et al., 2007).

The history of foreign direct investment (FDI) in Turkey started as early as 1954 with one of the most liberal FDI regimes in the world, leading to the establishment of foreign capital in Turkey. Since the early 1980s Government policy in Turkey has aimed at developing a free market economy. The country’s traditional inward-oriented import-substitution policies have been replaced with an export-oriented development strategy. Commensurate with this policy approach, Turkey has recorded a substantial increase in FDI (Demirbag et al., 2007). However, the total amount of FDI inflows stayed at negligible levels until 2003, especially in comparison to those in some other developing countries (UNCTAD, 2000). Turkey has adopted numerous legal changes in order to improve its investment environment since 2002. With the new FDI law, approved in June 2003, equal treatment principle was adopted, so that foreign investors acquire same rights and obligations with that of domestic investors. Although these new arrangements in investment environment that reduced bureaucracy and red tape in FDI to a minimum, political and economic stability, and the start of the accession negotiation between Turkey and EU in December 2004 have not produced the desired outcomes in FDI inflows yet, total FDI entries have increased dramatically in recent years. FDI inflows between 2001 and 2004 were US$9.72 billion, with the total value of FDI inflows jumping to a record level of US$20 billion as of 2007 (Demirbag et al., 2009). Turkey, among the Top 10 countries in terms of FDI inflows is 17th in ranking in 2006 and 23rd in 2007. Turkey has 1.2% shares in global FDI inflows, 4.4% shares among developing countries (UNCTAD, 2008).

As of the end of 2006, out of total 14,955 foreign-owned companies in Turkey, 82.2% consist of new company and branch establishments and 17.8% consist of foreign capital participations to the domestic companies (UNCTAD, 2007). Drawing on the official statistics of the Turkish Treasury, as of December 2008 the number of the inward IJV whose foreign equity ownership ranges from 10 to 90% has nearly 60% out of all FDI operating in Turkey. Turkish companies have also become more willing to establish IJVs since the 1980s to take advantage of foreign companies’ know-how in international business and technological capabilities (Bugra, 1991). The intention of local firms to cope with growing domestic competition may also foster joint venture activity with MNCs (Tatoglu and Glaister, 1998). On the other hand, an increase in the volume of joint ventures and in the number of acquisitions is likely due to their suitability for enabling a faster entry of foreign investors.
to the Turkish market.

Sample design

The unit of analysis, as defined earlier in this study, is the affiliates operating in an emerging economy of the MNEs. The unit of analysis, as defined earlier in this study, is the affiliates operating in an emerging economy of the MNEs. The affiliates (for example, IJVs) were selected through purposive sampling procedure. A purposive sample of the affiliates for the study was drawn from the overall population of 9751 foreign direct investments operating in Turkey as of 07.08.2009 on the basis of the following selection criteria: 1) foreign equity ownership proportion of foreign equity shareholding from 10 to 90%; this range is both appropriate for the aim of this study and consistent with the related literature (Beamish, 1988; Ramu, 1997; Tatoglu and Glaister, 1998; Larimo, 2003). A foreign direct investment with a foreign shareholding of less than 10 per cent is considered to be a portfolio investment (Tatoglu and Glaister, 1998); 2) the date of entry for over the period 1995 to 2003: it was decided to concentrate on this date because there is no information about the dependent variable of this study for after 2003 and the independent variables of this study for pre-1995; 3) the entry mode of the MNEs from 49 different home countries; these countries was accepted because measures for the independent variables were obtained from secondary data sources and we could access simultaneously all dependent variables for 49 home countries. Association for Foreign Capital Coordination (YASED) database consisted of 3716 affiliates operating in Turkey over the period 1995 to 2003 when the afore selection criteria were taken into account. Table 1 shows the affiliates in the sample.

Variable definitions and measurement

**Dependent variable**

The foreign equity structure of affiliates was treated as the dependent variable. The affiliates are broadly classified into four categories according to the proportion of the foreign equity shareholding. The first category of affiliates, where the foreign equity ownership is less than 90% are considered to be IJV, whereas foreign equity shareholding of equal to or more than 90% can be considered a wholly-owned affiliate (WOA). The IJVs are further broken down into three categories including majority JVs (foreign equity stake of less than 50%), co-ownership JVs (50-90%) and majority JVs (51 to 79%). In this study, the data set for foreign equity ownership at affiliate-level was compiled from Association for Foreign Capital Coordination Office. This database incorporates data from national authorities and other relevant sources and provides information about the origin country of the foreign partner, total number and composition of the foreign and local partners, the sector of operation, amount of the capital and the date of the entry.

**Independent variable**

Country-level data including institutional environment were obtained from secondary data sources as aforementioned. The institutional distance profile measures were developed for the regulative, cognitive and normative dimensions separately.

The regulative dimension of distance concerns laws, rules and other regulations that influence business strategy and operations. The most studies on the impact of the regulative institutional environment on organization have mostly employed only corruption (Uhlenbruck et al., 2006; Rodriguez et al., 2005; Habib and Zurawski, 2001, 2002) or only political constraints index developed by Henisz (2000, 2001, 2004) (Demirbag et al., 2007). In this study, in order to incorporate all possible aspects of regulation empirically, we employ an index that covers as broad a range of regulative aspects as possible, the Economic Freedom Index published by the Heritage Foundation and Wall Street Journal. This index provides information about a broad notion of institutions, focusing on the freedom of individuals and firms in a country to pursue their business activities. It includes ten sub-indices, constituting 50 independent variables, for 161 countries over the period 1995 to 2009 (www.heritage.org/index).

This index looks at regulative institutional context from ten different viewpoints: business freedom, trade freedom, fiscal freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption and labor freedom. Business freedom is about an individual’s right to create, operate and close an enterprise without interference from the state. Trade freedom reflects the openness of an economy to imports of goods and services from around the world and the ability of citizens to interact freely as buyers and sellers in the international marketplace. Fiscal freedom is the freedom of individuals and businesses to keep and control their income and wealth for their own benefit and use.

The excessive government is often justified in terms of “public goods” that are provided efficiently by the state rather than by the market. Monetary freedom, reflected in a stable currency and market-determined prices. Investment freedom is both inflows and outflows of capital. Financial freedom is about supervision of banks and other financial services whose major purposes ensure the safety and soundness of the financial system. The property right is the main motivating force in a market economy, and the rule of law is vital to a fully functioning free-market economy. Freedom from corruption reflects the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the capture of the state by elites and private interests. Labor freedom has principle has several components such as voluntary choice, free competition, wage controls, hiring and firing restrictions and health and safety restrictions.

The normative pillar of a country’s institutional pillars was evaluated by the cultural distance between the home and host countries of an MNE. Although scholars (Shenkar, 2001) have become increasingly critical of this index and of Hofstede’s underlying work (Chapman et al., 2008), the studies on the foreign mode entry strategies have very widely used the Kogut and Singh’s (1988) cultural distance index, which is based on Hofstede’s (1980, 2001) four dimensions of national culture.

Although most popular measures of countries’ normative environments depend on Hofstede’s (1980, 2001) dimensions of the culture, as Meschi and Ricco’s (2008) study, we will use House et al.’s (2004) study. Researchers have been using Hofstede’s four dimensions were measured in 1960s and 1970s to explain international strategic decisions made 20 or 30 years later. The problem with this approach is that, even if we assume cultural values are relatively stable and do not change substantially in 30 years’ time, we can not explain strategic changes that occurred nowadays with these data. Even if it is very slowly the societal culture can be evolving over the years. On the other hand, House et al.’s (2004) nine dimensions were measured in the late 1990. By using House et al.’s (2004) study, we think that we can take into account the possible time-related variations. In addition to, because the sample of this study consists of affiliates operating in Turkey over the period 1995 to 2003, we believe that House et al.’s (2004) data is more appropriate for this entry dates to evaluate countries’ culture.

House et al.’s (2004) nine dimensions of societal cultural – assertiveness, institutional collectivism, in-group collectivism, future orientation, gender egalitarianism, humane orientation, performance orientation, power distance and uncertainty avoidance – are evaluated at both practice and value levels (House et al., 2004).
The innovation system consists of the normalized scores on three Knowledge Economy pillars –innovation, education and human resources, and information and communication technology (ICT). The cognitive pillar comprises the knowledge and skills (Busenitz et al., 2000). In this study, in order to be able to present comprehensive aspects of cognitive, we employ the knowledge index published by the World Development Indicators. Because there was no country data in this index for the same date, we obtained these data from the Country Statistical Offices, ILO Yearbook of Labor Statistics and OECD Statistics. The knowledge index provides information about the normalized scores of a country or regime on the key variables in three Knowledge Economy pillars – innovation, education and human resources, and information and communication technology (ICT). The innovation system consists of the normalized scores on three key variables; total royalty payments and receipts, patent applications granted by US patent and trademark office and key variables; total royalty payments and receipts, patent applications granted by US patent and trademark office and scientific and technical journal articles. The education and human resources reflects the normalized scores on three key variables; telephone, computer and internet penetrations (per 100 0 people). ICT consists of the normalized scores on three key variables; telephone, computer and internet penetrations (per 100 0 people).

The cognitive distance represents the societal cultural differences of the home countries of the MNEs from Turkey. Unlike much of the previous work in this field, this study focuses on these components (practice and value) of the cultural distance at both value and practice level. The cultural distance was the societal cultural differences of the home countries of the MNEs from Turkey. The country had the low cultural distance score is accepted to near Turkey whereas the country had the high cultural distance score is accepted to far away Turkey.

The institutional distance between of the home country and Turkey was evaluated using the data at the time of entry of the MNE. If we could not reach the data at the time of entry, we used data referring to the year closest to the time of entry.

The other area where this study incorporates institutional distance is in the analysis of entry mode. The previous literature on international management also suggests that there are significant differences between developed and emerging countries in terms of the institutional environments that are likely to affect the MNEs’ strategic choices of international entry modes (Makino et al., 2004; Tsang and Yip, 2007; Ferreira et al., 2007). Therefore, at the parent firm level, whether developed or emerging country of the home country of the MNE was measured as a control variable. This variable was measured by the value of export and import percent of the home country of the MNE, obtained from World Bank’ World Investment Report for 1995 to 2003. The international openness was normalized by gross domestic product, to control for the size of each country’s economy.

The cognitive distance was measured using a dummy variable. Following Kobrin (1991), who classified industries in terms of their degree of global integration, the industries in this study were classified as either global or multidomestic; 1 means global industry, 0 means multidomestic industry.

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### Table 1. Characteristics of the sample.

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<th>Variable</th>
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<td>Ownership pattern of for partner</td>
<td></td>
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<td>Regulative distance</td>
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<tr>
<td>Minority (10-49 %)</td>
<td>1091</td>
<td>29.4</td>
<td>Low (≤ 4)</td>
<td>688</td>
<td>18.5</td>
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<tr>
<td>Equity (50-50 %)</td>
<td>860</td>
<td>23.1</td>
<td>Middle (4-6)</td>
<td>1.704</td>
<td>45.9</td>
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<tr>
<td>Majority (51-90 %)</td>
<td>664</td>
<td>17.9</td>
<td>High (above 6)</td>
<td>1.324</td>
<td>35.6</td>
</tr>
<tr>
<td>Wholly owned affiliate (100 %)</td>
<td>1101</td>
<td>29.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry of affiliates</td>
<td></td>
<td></td>
<td>Normalative distance (practice)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>2329</td>
<td>62.7</td>
<td>Low (below to 1.5)</td>
<td>1.420</td>
<td>38.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1387</td>
<td>37.3</td>
<td>Middle (1.5-2.5)</td>
<td>1.647</td>
<td>44.3</td>
</tr>
<tr>
<td>Country of origin of foreign partner</td>
<td></td>
<td></td>
<td>High (above 2.5)</td>
<td>0.649</td>
<td>17.5</td>
</tr>
<tr>
<td>Developed country</td>
<td>2798</td>
<td>75.3</td>
<td>Normative distance (value)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emerging country</td>
<td>918</td>
<td>24.7</td>
<td>Low (≤1.5)</td>
<td>.970</td>
<td>26.1</td>
</tr>
<tr>
<td>The total capital of affiliates ($)</td>
<td></td>
<td></td>
<td>Middle (1.5-2.5)</td>
<td>2.081</td>
<td>56.0</td>
</tr>
<tr>
<td>0-100 million</td>
<td>2614</td>
<td>70.4</td>
<td>High (above 2.5)</td>
<td>0.665</td>
<td>17.9</td>
</tr>
<tr>
<td>100.1-500 million</td>
<td>711</td>
<td>19.1</td>
<td>Cognitive distance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Above 500.1 million</td>
<td>391</td>
<td>10.5</td>
<td>Low (≤47)</td>
<td>850</td>
<td>22.9</td>
</tr>
<tr>
<td>Total</td>
<td>3716</td>
<td>100</td>
<td>Middle (7-9)</td>
<td>1.604</td>
<td>43.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>High (above 9)</td>
<td>1.282</td>
<td>34.0</td>
</tr>
<tr>
<td>Total</td>
<td>3716</td>
<td>100</td>
<td>Total</td>
<td>3716</td>
<td>100</td>
</tr>
</tbody>
</table>
Table 2. Descriptive statistics and Spearman correlation matrix of variables.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership structure</td>
<td>0.33</td>
<td>0.47</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normative distance (practice)</td>
<td>0.09</td>
<td>0.09</td>
<td>-0.064**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normative distance (value)</td>
<td>0.16</td>
<td>0.78</td>
<td>-0.015</td>
<td>-0.182**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulative distance</td>
<td>0.80</td>
<td>0.96</td>
<td>-0.029**</td>
<td>-0.029</td>
<td>-0.414**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cognitive distance</td>
<td>0.69</td>
<td>1.19</td>
<td>-0.121**</td>
<td>-0.566**</td>
<td>-0.035*</td>
<td>-0.015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The date of entry (pre- or post-2001 crisis)</td>
<td>0.29</td>
<td>0.45</td>
<td>-0.044**</td>
<td>-0.033*</td>
<td>-0.025</td>
<td>-0.041*</td>
<td>-0.009</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>0.13</td>
<td>0.34</td>
<td>-0.020**</td>
<td>-0.035*</td>
<td>-0.045**</td>
<td>-0.005</td>
<td>-0.134**</td>
<td>-0.032</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developed/emerging country of foreign partner</td>
<td>0.75</td>
<td>0.43</td>
<td>-0.114**</td>
<td>-0.324**</td>
<td>-0.173**</td>
<td>-0.016</td>
<td>-0.869**</td>
<td>-0.016</td>
<td>0.152**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International openness (%)</td>
<td>0.62</td>
<td>0.31</td>
<td>-0.071**</td>
<td>-0.565**</td>
<td>-0.141**</td>
<td>-0.101**</td>
<td>-0.296**</td>
<td>0.057**</td>
<td>0.046**</td>
<td>0.245**</td>
<td></td>
</tr>
</tbody>
</table>

The date of entry (pre- or post-2001 crisis) and the size of the affiliate were evaluated as country level control variables. The crisis is very important factor for either entry mode of the MNEs or the flows of the foreign direct investment. Turkey, the sample of this study, had a big crisis in 2001. We think that it is perhaps test point. The date of entry was measures by dummy variable where a value of 1 was given for post-2001 entries and 0 for pre-2001 entries. The size of the affiliate also can play a significant role in entry strategy of the MNEs (Quer et al., 2007; Hennart and Larimo, 1998). The size of the affiliate was evaluated using the logarithm of the amount of total investment, obtained from Association for Foreign Capital Coordination (YASED). The logarithmic transformation is generally used to normalize the size variable, which might otherwise be badly skewed.

Analysis

Logistic regression models were used to test the hypotheses. Logistic regression analysis has been frequently utilized in studies entry mode strategies (Xu et al., 2004; Demirbag et al., 2009; Hennart and Larimo, 1998) Logistic model is appropriate for this study because the dependent and some control variables is binary; there are qualitative and quantitative independent and control variables; underlying assumptions of multivariate normality could not be met (Hair et al., 1995). This analysis is oriented to estimating the probability of an event occurring. A positive sign for the coefficient means the variable increases the probability of the event occurring and a negative sign signifies the opposite.

RESULTS

Table 2 shows descriptive statistics and Spearman correlation matrix of variables used in this study. Overall, the results in Table 2 show strong correlations between dependent variable and the independent except for normative distance (value) and control variables. International openness is highly correlated control variable with the other all variables.

Table 3 present logistic regression models predicting the likelihood of the effect of the institutional distance between the home and host countries on the entry strategies of the MNEs. In this study, to investigate further how three institutional pillars affect the foreign investors' choice of the level of minority, equity or majority equity stake in their affiliates operating in Turkey, four separate main comparisons were made: 1) comparing minority ownership IJVs to WOAs, 2) comparing equal ownership IJVs to WOAs, 3) comparing majority ownership IJVs to WOAs, 4) comparing full sample of the IJVs to WOAs. As can be seen from Table 3, the choice between each category of IJV ownership and the WOA is presented in Models 1, 2, 3, and 4. In order to measure the normative distance at two cultural levels such as practice and value, we developed two logistics regression models for each ownership structure. Model 1a, 2a, 3a and 4a contain cultural practice as normative distance while Models 1b, 2b, 3b and 4b contain cultural value as normative distance.

The estimated coefficients present the utility of choosing the WOAs over the IJVs. A positive coefficient for an independent variable means that it increases the probability of the WOAs compared to the IJVs. A negative coefficient means that the IJVs are more likely than the WOAs. All for eight sets of models except Model 2b have overall explanatory power with significant chi-square values (p<0.05). Pseudo R² measures confirm that the models have adequate explanatory power.

In this study, Model 4a containing practice as
Table 3. Logistic regression results on entry mode strategies.

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Explanations</th>
<th>Minority IJV vs. WOA (WOA=1)</th>
<th>Equity IJV vs. WOA (WOA=1)</th>
<th>Majority IJV vs. WOA (WOA=1)</th>
<th>All IJV vs. WOA (WOA=1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Model 1a</td>
<td>Model 1b</td>
<td>Model 2a</td>
<td>Model 2b</td>
</tr>
<tr>
<td>NRM_DST_PRC</td>
<td>Normative distance – practice</td>
<td>B</td>
<td>Wald</td>
<td>B</td>
<td>Wald</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-0.121*</td>
<td>0.38</td>
<td>-0.047</td>
<td>0.50</td>
</tr>
<tr>
<td>NRM_DST_VLU</td>
<td>Normative distance – value</td>
<td>B</td>
<td>Wald</td>
<td>B</td>
<td>Wald</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-0.147**</td>
<td>0.91</td>
<td>-0.044</td>
<td>0.10</td>
</tr>
<tr>
<td>REG_DST</td>
<td>Regulative distance</td>
<td>B</td>
<td>Wald</td>
<td>B</td>
<td>Wald</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-0.391**</td>
<td>0.82</td>
<td>-0.139</td>
<td>0.16</td>
</tr>
<tr>
<td>CGN_DST</td>
<td>Cognitive distance</td>
<td>B</td>
<td>Wald</td>
<td>B</td>
<td>Wald</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-0.616**</td>
<td>0.67</td>
<td>-0.034</td>
<td>0.09</td>
</tr>
<tr>
<td>ENT_DATE</td>
<td>The date of entry</td>
<td>B</td>
<td>Wald</td>
<td>B</td>
<td>Wald</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-0.294*</td>
<td>0.03</td>
<td>-0.028</td>
<td>0.04</td>
</tr>
<tr>
<td>IND</td>
<td>Industry</td>
<td>B</td>
<td>Wald</td>
<td>B</td>
<td>Wald</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-0.032</td>
<td>0.00</td>
<td>-0.400</td>
<td>0.02</td>
</tr>
<tr>
<td>DVL_EMIR</td>
<td>Dev./ emerg. country of for. partner</td>
<td>B</td>
<td>Wald</td>
<td>B</td>
<td>Wald</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-0.577**</td>
<td>0.07</td>
<td>-0.470</td>
<td>0.06</td>
</tr>
<tr>
<td>INT-OPN</td>
<td>International openness of home cou.</td>
<td>B</td>
<td>Wald</td>
<td>B</td>
<td>Wald</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-0.404**</td>
<td>0.04</td>
<td>-0.040</td>
<td>0.00</td>
</tr>
<tr>
<td>LOG_SIZE</td>
<td>Log- the size of affiliate (log)</td>
<td>B</td>
<td>Wald</td>
<td>B</td>
<td>Wald</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-0.012</td>
<td>0.00</td>
<td>-0.357**</td>
<td>0.03</td>
</tr>
<tr>
<td>Constant</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Chi-square (Hosmer-Lemeshow) 33.940*** 16.340* 17.491* 8.121 16.615* 17.675* 38.139*** 44.332***
Chi-square of the modl (Omnibus) 173.279 174.253 20.071 23.505 113.694 112.651 42.071 46.551
The signification of the model 0.000 0.000 0.000 0.003 0.000 0.000 0.000 0.000
Cox  & Snell R square 0.331 0.331 0.111 0.131 0.030 0.030 0.004 0.004
Nagelkerke R square 0.325 0.325 0.096 0.098 0.003 0.003 0.002 0.002
n= 3716 n= 3716 n= 3716 n= 3716 n= 3716 n= 3716 n= 3716 n= 3716

MODE= f {NRM_DST_PRC, NRM_DST_VLU, REG_DST, CGN_DST, ENT_DATE, IND, DVL_EMIR, INT-OPN, LOG_SIZE}; **Correlation is significant at the 0.01 level; *Correlation is significant at the 0.05 level; †Correlation is significant at the 0.10 level. Standard errors are in parentheses.

normative distance and Model 4b having value as normative distance are baseline models for testing hypotheses. The other models provide detailed information about the impact of the institutional distance between the home and host countries on the foreign investors’ choice of the level of minority, equity or majority equity stake in their affiliates operating in Turkey.

According to Models 4a and b, there is no support for H2, that as increasing the regulative institutional distance between the home and host country, the more likely that the MNE chooses an IJV with the local partner over a WOA. Contrary to expectations, the coefficient of REG_DST is positive, but insignificant in Models 4a and b. This means that differences in the regulative environment do not have much impact on the entry strategies of the MNE. The coefficient of REG_DST is significant in only two model (Model 1a at p< 0.01; Model 1b at p< 0.05), but the effect is in the direction opposite that predicted by the hypothesis. This suggests that the MNEs tend to prefer to wholly owned affiliate over minority international joint venture as an entry mode when the regulative institutional distance between the home country and Turkey is high. However, there is no effect of the regulatory distance on the probability of a WOA compared to an IJV as an entry strategy (Models 4a and b).

In H2, we predict that if the host country is especially an emerging country, the greater the normative institutional distance between the home and host country, the more likely that the MNE chooses an IJV with the local partner over a WOA. There is support for H2 at cultural practice level. With the effects of the other variable controlled, the results from Model 4a indicate that the coefficient of the NRM_DST_PRC is significant in Model 4a at p< 0.01, providing support for the hypothesis. This means that the normative distance at the practice level has a negative affect on the ownership structure of the affiliate and increases the probability of an IJV compared to a WOA. In other words, our results suggest that the larger normative distance at the practice level between the home country and Turkey is related to lower choosing a WOA. If we see detailed models, as can be seen in Model 1a, the MNEs...
tend to choose a minority IJV than a WOA as an entry mode when the normative institutional environment at practice level between the home and host countries is high.  
At value level, the coefficient of the normative distance is positive, but no significant in Model 4b, indicating that there is no effect NRM_DST_VLU on the preferring an IJV than a WOA. However, if we see detailed models, opposite to predicted, the coefficient of the normative distance (value) is positive and significant at p < 0.05 in both Models 1b and 3b. This results show that the foreign investors' choice of the level of minority or majority equity stake in their affiliates operating in Turkey is related to the normative distance (value) between the home country and Turkey. This means that as the normative (value) institutional distance between the home country and Turkey is higher, the more probability the MNEs prefer to a WOA over a minority or majority IJV as an entry strategies.

Our findings do not support H2 that if the host country is especially an emerging country, the greater the cognitive institutional distance between the home and host countries, the more likely that the MNE chooses an IJV with the local partner over a WOA. Contrary to predicted hypothesis the coefficient of CGN_DST is positive and significant in Model 4a at p < 0.01 and Model 4b at p < 0.05, suggesting that the MNE is more likely to choose a WOA over a shared equity investment in Turkey when the cognitive distance between the home country and Turkey is high. In addition, the interaction between the cognitive distance and entry mode is also important in the event of minority IJV compared to WOA. The positive and significant coefficient for CGN_DST (Models 1a and b at p < 0.01) confirms the view that the MNEs would prefer a WOA over a minority IJV in Turkey if the cognitive distance between the home country and Turkey.

All the independent variables have effect on the entry strategy of minority IJVs compared to WOSs. However, when the findings of the analysis and the interpretation of the research models are completely evaluated, it can clearly be seen that, there is support for the Hypothesis 4 that the regulative distance between the home and host countries has less impact on the entry mode of the MNEs than the normative and cognitive distance.

As Table 3 reveals, if control variables are examined, the most influential variables among them are ENT_DATE, INT_OPN and LOG_SIZE. The coefficients of ENT_DATE and LOG_SIZE are negative and significant in all models except for Models 2a and b, indicating chooses equity IJV compared to WOA. These results suggest that the foreign investors have been more in favor of establishing the IJVs than the WOAs in Turkey after 2001 crisis. Besides, the size of affiliate increases the probability of the IJVs compared to the WOAs. The positive and significant coefficients on INT_OPN in all model except for Models 3a and b (equity IJVs and WOAs) show that the foreign investors are more likely to choose the WOAs over the IJVs, as international openness of the home country increases.

The DVL_EMR has a negative effect and is significant at p < 0.10 for Models 1b, 2a, b, and 4b, indicating that if the MNE is from a developed country, it tends to prefer establishing an IJV, especially minority or majority IJV compared to WOA, rather than establishing a WOA as entry strategies. The DVL_EMR and INT_OPN are two control variables affecting the entry strategy of the MNEs for equity IJV versus WOS. The IND has no effects the ownership structure except for the preferring the minority IJV compared to WOA.

**DISCUSSION AND CONCLUSIONS**

This study draws upon institutional theory to estimate how the institutional differences between the home and host country influence the equity-based ownership strategies of the MNEs, in an emerging host country. A database of various home countries' the affiliates operating in Turkey allowed us to test rigorously a set of hypotheses based on the these theoretical perspective.

When the findings of the analyses and the interpretation of the research models are completely evaluated, it can clearly be seen that, the main determinants of foreign equity ownership among three institutional pillars is the cognitive distance. In other words, this study provides some evidence that one pillar that may affect the strength of the dual pressures on the MNEs is the cognitive institutional context. However, the cognitive distance of the home country’s MNE and Turkey has the unexpected impact on the MNEs' choice between an IJV and a WOA. The effect is in the direction opposite that predicted by the hypothesis. When the cognitive institutional distance between the home country of the MNE and Turkey is high, the MNEs are likely to prefer a WOA over an IJV as entry mode because of the difficulties of obtaining legitimacy in Turkey.

As mentioned earlier, there are significant differences between developed and emerging economies in terms of the cognitive institutional factors that are likely to affect the MNEs' strategic choices of international entry modes. An important characteristic of emerging economies is that market-supporting institutions are less developed, and thus constrain the MNEs' strategic choices (Khanna and Palepu, 2000; Peng, 2003; Ramamurti, 2004). The MNEs confront harsher cognitive context in emerging markets than developed countries. There is the remarkably wide gulf in knowledge index values as cognitive institutional context. As can be seen in Table 1, most home countries of the MNEs are also developed countries (75.3%), and cognitive institutional environments of most of them (77%) are far from those of Turkey whose knowledge index is low. These MNEs have to confront a large variety of factors related to the cognitive uncertainties of the new host environment. Therefore, the MNE prefer wholly
owned affiliate than locating a partner from the host country to overcome these uncertainties. With increasing institutional cognitive distance, the MNEs increase their level of equity ownership or entered and operated through the most costly route of wholly owned affiliate. Such firm strategies are intended for greater control of the host country operation, even if they will serve as important source of increased costs of control and screening for the firm.

While the previous researches claim that the cultural distance has a significant effect on the entry mode (Brouthers and Brouthers, 2001; Padmanabhan and Cho, 1999), in this study, no strong support has been found for the cultural distance at value level as entry mode for an all IJV compared to a WOA. However, the cultural distance (value) as normative distance has affect on the foreign investors’ choice of WOAs in their affiliates operating in Turkey. Contrast with related literature, the results show that when the normative (value) institutional distance between the home country and Turkey is higher, the more probability the MNEs prefer to a WOA over a minority or majority equity stake IJV as an entry strategies.

This result is derived from either the characteristics of cultural values and collectivistic nature of Turkish culture or methodological reasons. As seen in Table 1, because the cultural distance between the home countries of the MNEs and Turkey is middle in most of the affiliated in this study (56%), maybe this situation prevent from the real effect of the cultural distance on the entry mode of MNEs in the affiliates. Oudenhoven (2001) and Wiener (1988) claim that societal culture at value level refers to profound beliefs and taken-for-granted assumptions that are shared by the vast majority of people belonging to a certain society. Values are the most deeply rooted aspects of a culture. The MNE can not observe these unconscious processes of the nation (value level). The values affect the behavior especially in a collectivist culture such as Turkey. As mentioned earlier, the prejudice against the MNEs from different country and low trust are more common in these cultures. Therefore, establishing legitimacy in these host countries becomes more difficult. The MNEs feel less comfortable with the possibilities of unknown approaches. The MNEs have not directly taken into consideration cultural value due to the fact that they know that the societal culture at value level can not be managed.

The effects of cultural distance at both value and practice levels on the entry mode are opposite in this study. These results supported the Maseland and Hoorn’s (2009) study explaining the negative correlation between values and practices reported by the Global Leadership and Organizational Behavior Effectiveness project. As has been expected, at the practice level, if the normative distance is high, the MNE chooses an IJV over a WOA.

The societal culture at practice level is the more superficial, observable, managerial characteristics of culture than value level. One way to overcome the normative impediments (practice) in socially restrictive institutional environments is the IJVs with socially legitimate local partners to gain social legitimacy in Turkey and benefits from social reputations of the local partner. The MNEs need to local partner as feeling gaining legitimacy with local authorities in conditions. Forming the IJVs with the local firms is an attractive entry mode for the MNEs because of the opportunities to enlist strategic assets from local partners, to obtain local knowledge, to gain an introduction into local social networks and to gain the external legitimacy (Chen and Hennart, 2002).

Consistent with related literature (Trevino et al., 2008), the findings of this study point out that institutional processes that legitimize more effectively through the cognitive and normative pillars are better indicators of entry mode than those that legitimize primarily through the regulative pillar. Consistent with the Kostova and Zaheer’s (1999) study, this study suggest that the entry strategies of the MNEs are more affected by cognitive and normative institutions than by regulative institutions. The regulative institutions are relatively transparent whereas the norms and cognition require intensive cross-borders communication and are hard to comprehend and often tacit (Boyacigiller et al., 2004). The regulative pillar in the host countries is perhaps the easiest for the MNEs to observe, understand and correctly interpret because regulative institutions are codified and formalized in rules and procedures (Eden and Miller, 2004). As regulative rules are mostly codified, the MNEs may find it relatively easy to adapt to local regulatory pressures without a local partner, even if regulative distance is high.

The results indicate that the economic crisis has strong effects on entry mode of the MNEs. While the market transition provided the MNEs with unprecedented opportunities, transition also featured the intensified uncertainties that characterize most emerging economies. After the 2001 crisis, in Turkish business environment with political and economical unstable, the MNEs tend to choose the IJVs over the WOAs. The MNEs try to maintain by themselves for these inconsistent conditions.

The findings of this study point out that if the international openness of the home country is high, the MNE prefer a WOA and IJV as an entry mode. The international openness of the home country provides an international experience their MNEs and a greater market power so they can overcome the liability of foreignness. The greater MNEs’ international experience and ability to export and import, their needs for a local partner is smaller. This study shows that the size of the affiliate is the other variable that affects the entry mode of the MNEs. Because larger affiliates need more financial, management etc. resources, the MNEs want to share these risks with local partner. Therefore, when the size of the affiliate is great, the MNE’s need for a local partner is
higher.

CONTRIBUTIONS, LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

Our research is motivated by a lack of understanding about the impact of the institutional distance between the home and host countries on the ownership-based entry strategies in emerging economies. Previous research on the entry mode of the MNEs has focused exclusively on the technical and economic determinants of international business activity. Even if there are few international business researches that stress the effect of the institutional environment on the organization, it is difficult to find any empirical research on the effects of the institutional distance on the entry mode to especially emerging economies in the related literature. This study has thus filled a crucial gap in understanding the entry modes of the MNEs by exploring how the institutional differences between the home and host country influence the ownership-based entry strategies of the MNEs in an emerging economy both conceptually and empirically.

Our research is also important due to the fact that it focuses on the of entry mode choice of the MNE from different home countries at the affiliate level by examining a broader concept of the institutional distance. Based on Scott’s (1995, 2001) theoretical study, we distinguished institutional distance into regulative, normative and cognitive distance and evaluated three institutional distances separately. In addition, unlike much of the previous work in this field, this study used the cultural distance variable as normative distance by focuses on both values and practices. The institutional context of the home country and Turkey was evaluated using the data at the time of entry of the MNE. If we could not reach the data at the time of entry, we used data referring to the year closest to the time of entry.

At the same time, the findings of present paper are also interesting for practical reasons as well as theoretical reasons. The findings have important implications especially for foreign investors and managers who find Turkey as an attractive market in which to do business. Where the cognitive environment between the home country and Turkey are dissimilar, the wholly owned affiliate may be the preferred mode of entry for a MNE rather than international joint venture type of partnerships. In contrast, if the societal cultural values between the home country and Turkey are different, a MNE takes normative institutional differences into consideration and choose the international joint venture with Turkish firms rather than the wholly owned affiliate.

Despite the contributions, this study has some limitations that should be considered while interpreting its results. First, the study is limited to a sample which consists of the affiliates operating in Turkey over the period 1995 to 2003. We have to concentrate on this dates due to the fact that there is no information about the dependent variable of this study for after 2003 and the independent variables of this study for pre-1995. However, total FDI entries have increased in recent years after the new FDI law was approved in June 2003. These legislative changes made in 2003 aimed to create a more favorable investment climate and improve the legal conditions for potential foreign investors. In this context, the entry mode of the MNEs has perhaps changed since 2003. Consequently, the results which will be obtained from the affiliates operating in Turkey since 2003 may be different from the results obtained from the affiliates coming in Turkey over the period of 1995 to 2003.

The second limitation is that our study did not consider who the local partners of the MNEs are. As mentioned earlier, business groups emerge as the dominant economic actors in the Turkish context such as many emerging economies. We think that whether the local partners of the IJVs are these actors is important for the ownership structures of the IJVs. When the MNE particularly engages in joint venture with strong local business groups rather than passive partner, this strong local partner has dominant impact on the proportion of the local and foreign equity shareholding in affiliates operating in Turkey. Future studies can investigate their side of the story more systematically.

In this study, we investigate foreign equity ownership proportion of foreign equity shareholding of the affiliate at the moment when is first entry timing of its. However, in last decade the share of the cross-border merger and acquisition activities in the world FDI inflows have been increased dramatically. The structure of the FDI flows to Turkey follows a similar pattern with that of the world. In the 2005 to 2006 period, the share of merger and acquisition activities flows was between 75 and 80% in Turkey. Therefore, this study may be reiterated from the point of view of merger and acquisition as entry mode. In this way, whether there are differences among the ownership structure of merger, acquisition or greenfield investment as entry strategy may be investigated.

On the other hand, the ownership structure is changing over time after the MNE enter particularly in an emerging economy. Consequently, the investigation of the changing of the ownership structure of the affiliate will be an important field of study for future studies. Longitudinal studies will also allow for testing of effects of the institutional environmental changes on the entry mode of the MNE.

Some findings of the study are in contradiction to those of related literature. This situation is derived from the characteristics of host country due to the fact that, in this study, it consists of an emerging country rather than a developed country. In most studies in the related literature, the host country is a developed country. In this context, their findings reflect the institutional nature of the developed countries. Moreover, we sampled the entry strategies of the MNEs to an emerging country, which
constrains the generalizability of our study. This study may be reiterated in a new sample which consists of the affiliates operating in different emerging countries. In this way, whether there are differences among developed and emerging host countries as the entry strategies of the MNEs, if that is the case, which institutional pillars and at which level these differences affect ownership-based entry strategies may be systematically investigated. We need to the more studies about emerging countries to understand how the institutional distance matters.

REFERENCES


