The Cross-Border Expansion of Multinational Firms:
Establishment Mode Choice, CEO Staffing, and Country Barriers

Dissertation

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presented by

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List of Abbreviations

ACQ..............................acquisition
CD.................................cultural distance
CEO...............................chief executive officer
cf.................................confer
CI.................................confidence interval
CMV...............................common method variance
e.g.................................exempli gratia / for example
et al.............................et alii / and others
ETS...............................Educational Testing Services
FDI...............................foreign direct investment
GRE...............................greenfield investment
HCN.............................host country national
HOMA...........................Hedges & Olkin meta-analysis
HQ...............................headquarters
HR...............................Human Resources
I^2...............................value of I^2-statistic
i.e.................................id est / that is
ik.................................number of trim & fill imputed studies
ICT............................information and communication technology
IT...............................information technology
JV...............................joint venture
K.................................number of studies
MARA...............................meta-analytic regression analysis
MNC.............................multinational corporation
n.................................sample size
n.a...............................not applicable
List of Abbreviations

p.................................................. significance level
p.................................................. page
PCN.......................................... parent country national
\( p_t > z \).......................................... significance of Kendall’s tau, rank order correlation
Q.................................................. value of Q-statistic
Q_B.............................................. value for the heterogeneity between groups
Q_E.............................................. heterogeneity unexplained by the regression model
Q_M.............................................. heterogeneity explained by the regression model
r.................................................. correlation coefficient (Study 1), regression coefficient (Study 2)
R^2............................................... R-squared
r_{\text{trf}}..................................... trim & fill adjusted correlation coefficient
\bar{r}_z......................................... Fisher Z-transformed weighted mean correlation coefficient
SD.............................................. standard deviation
SE.............................................. standard error
s_e^2.......................................... expected variance
s_p^2.......................................... residual variance
TCN.......................................... third country national
TOEFL........................................ Test of English as a Foreign Language
US............................................. United States (of America)
VIF.............................................. variance inflation factor
WOS.......................................... wholly-owned subsidiary
\beta............................................. beta / regression coefficient (Study 1)
\beta_0.......................................... intercept of Egger’s test of the intercept
\chi^2.......................................... chi-squared
\Delta.......................................... delta
\%............................................ percent
A  Introduction

1  Focus of the Dissertation

Cross-border expansion is a multidimensional process for firms. This internationalization effort requires important decisions, features significant challenges, and has the potential to provide many benefits. Firms can tap into external opportunities that allow them to increase their scale and scope of operations and to diversify their business activities (Al-Laham and Souitaris, 2008; Buckley and Casson, 1976). Moreover, internationalization into foreign markets provides firms with operational flexibility and facilitates organizational learning, increasing knowledge and developing competencies that are not available to firms that operate only domestically (Kogut, 1989; Ruigrok and Wagner, 2003; Wernerfelt, 1984).

In order to seize the opportunities associated with internationalization, firms have crucial strategic decisions to make in the course of their internationalization. One of these decisions concerns the establishment mode choice, that is, the firm’s choice between entering a foreign country by acquiring an already existing company or by building up a new subsidiary from scratch using a greenfield investment (Slangen and Hennart, 2007). This choice is particularly critical, as either choice incurs high costs, is difficult to reverse, and directly affects the subsidiary’s performance (Dikova and Brouthers, 2015; Shaver, 1998; Shrader, 2001).

Once a firm decides on the mode of market entry, it has to determine how to staff the foreign subsidiary, as staffing decisions affect the headquarters’ (HQ) relationship with its subsidiary, the subsidiary’s operations, and its success (Gong, 2003; Konopaske et al., 2002). Staffing the subsidiary’s CEO position is particularly important, as chief executives have a critical impact on strategy formulation, activities, and performance (Herrmann and Datta, 2002). A firm can choose between hiring a CEO and other employees from the home country, from the host country, or from a third country (Reiche and Harzing, 2011). Every employee comes with his or her own cultural and linguistic background, knowledge base, and costs, based on country of origin (Colakoglu et al., 2009; Tarique et al., 2006). Based on these characteristics, the employees contribute differently to a firm’s activities with regard to, for instance,
communication, control, knowledge transfer, and contribution to the subsidiary’s legitimacy (Gaur et al., 2007; Harzing, 2001a).

Among the challenges of internationalization are the differences between the home country and the host country, which can cause barriers to a firm’s successful internationalization if they impede the acquisition of local knowledge, the management of the foreign subsidiary, and cooperation with local partners (Hennart and Larimo, 1998; Xu and Shenkar, 2002). Language and national culture, two dimensions of cross-country differences from Johanson and Vahlne’s (1977) psychic distance concept, have gained particular pertinence (Brannen et al., 2014; Tihanyi et al., 2005). Language barriers, such as when the languages spoken in the home country and the host countries differ or when managers’ language skills are poor, severely hamper the communication between HQ and its foreign subsidiary (Marschan-Piekkari et al., 1999b; Slangen, 2011), which negatively affects trust in multinational teams (Tenzer et al., 2014), knowledge transfer (Peltokorpi and Vaara, 2014), and coordination and control (Welch et al., 2005). Moreover, firms that enter foreign countries have to adapt in some ways to local cultural conditions (Sousa and Bradley, 2006), which increases in difficulty as the differences between the home country and the host country cultures increase. Culture, as the “collective programming of the mind which distinguishes the members of one category of people from another” (Hofstede, 1994, p. 1), determines, for instance, organizational and administrative characteristics and employees’ expectations (Kogut and Singh, 1988), so cultural distance between the home country and the host country hampers interaction and aggravates information gathering, leading to misunderstandings and increasing uncertainty (López-Duarte and Vidal-Suárez, 2010; Manev and Stevenson, 2001; Sousa and Bradley, 2006).

This dissertation focuses on how country barriers affect key decisions multinational firms make in managing their cross-border expansion. More precisely, it increases our understanding of the firm’s establishment mode choice and its staffing decision regarding the subsidiary’s CEO by analyzing the effects of cultural and language barriers, respectively, and shows how to overcome these barriers.

In order to affect this purpose, the dissertation draws on and develops established theoretical perspectives. The resource-based view (RBV), one of the “most influential framework[s] for understanding strategic management” (Barney et al., 2001, p. 1), promotes the notion that firms decide
on their entry strategies based on the firm-specific advantages they possess and the resources they seek to access abroad (Peng, 2001). This dissertation adapts these postulates to the establishment mode choice and adds a contextual perspective to advance the RBV. Further, by developing a communication-based framework for a firm’s subsidiary CEO staffing decision, the dissertation highlights the relevance of language barriers to this particular decision. Given the importance of effective communication, particularly in regard to knowledge exchange between a firm’s HQ and the foreign subsidiary, as well as the importance of coordination and control (Harzing and Feely, 2008; Slangen, 2011; Welch and Welch, 2008), the dissertation expands the applicability of the communication perspective to the global staffing decision.

From a methodological point of view, the dissertation uses a diverse set of data bases and statistical tools to analyze the relationships under study. The dissertation aggregates the existing empirical literature regarding the choice of establishment mode by using meta-analysis technique, performing weighted-average calculations and meta-regressions on correlation coefficients derived from relevant studies that were identified in a comprehensive literature search. The thesis also produces findings based on multivariate statistics, for which a questionnaire that uses established scales was developed and sent to German multinational firms. The primary data generated from the questionnaire were enriched with secondary data and analyzed using binary logistic regressions. Moreover, descriptive analyses of these data in the form of mean value comparisons and frequency analyses were conducted to assess the advantageousness of firms’ strategies in the course of multinational expansion.

2 Research Gaps

Research on firms’ internationalization has produced a broad array of insights. The extant literature points to how firms enter foreign countries, particularly focusing on the dichotomous choice between acquisitions and greenfield investments and elaborating on the antecedents that affect this choice (Slangen and Hennart, 2007). Prior research also discusses strategies that can help to overcome language and communication barriers, such as language standardization and the use of translators (Feely and Harzing, 2003; Slangen, 2011). In this regard, the use of expatriates in foreign subsidiaries has received
special attention for its multiple advantages and disadvantages. Despite these many investigations, the
literature in these fields has several gaps that suggest three research questions:

1. What role do a firm’s resources play in interaction with cultural distance in the
   establishment mode choice?

2. How do communication barriers affect the subsidiary CEO staffing decision?

3. What strategies are most effective in overcoming language barriers?

With regard to the first research question, the extant literature lacks a theoretical framework that focuses
on the effect of specific types of resources and that provides a consistent rationale for the influence of
firms’ resources on the establishment mode choice. Further, the inconclusive empirical findings in the
field may result from neglecting to include contextual effects in the analyses regarding the relationship
between resources and the establishment mode. These contextual effects warrant further scholarly
inquiry.

Research on a firm’s establishment mode choice has drawn on many theoretical perspectives in
addressing a variety of determinants that influence the preference for either an acquisition or a greenfield
investment when a firm enters a foreign country (Slangen and Hennart, 2007). Scholars have analyzed
the effect of variables on the country level, such as the host country economic growth (Barkema and
Vermeulen, 1998), on the industry level, such as industry concentration (e.g., Chen, 2008), and on the
subsidiary level, such as subsidiary size (Brouthers and Dikova, 2010).

Although a firm’s resources, as firm-level factors, are of particular relevance to both acquisitions and
greenfield investments, as they are both resource-intensive forms of market entry (Dikova and
Brouthers, 2015; McDougall and Oviatt, 2000), prior research shows inconsistency in studying their
impact. The literature argues for and tests the effect of, for instance, marketing resources (e.g., Chen and
Zeng, 2004), technological resources (e.g., Harzing, 2002), and experience-related resources, such as
prior international experience (e.g., Dikova and van Witteloostuijn, 2007) on the establishment mode
choice. In this regard, studies draw on a multitude of theoretical bases, including transaction cost theory
and learning theory, to develop varying rationales for the impact of isolated resource variables on the
choice at hand. Moreover, the empirical findings in this field are inconclusive, as they show positive
relationships of certain types of resources with both acquisitions and greenfield investments, as well as insignificant results (Slangen and Hennart, 2007). This inconclusive effect of firm resources on the establishment mode choice may result from information deficits induced by cultural distance between the home country and the host country, so this important contextual factor needs further investigation.

Given the importance of communication for coordination and control and knowledge transfer, the second research question centers on the impact of communication barriers on a firm’s strategy regarding staffing foreign subsidiaries with expatriates. Whether a firm is more likely to staff the CEO position in a foreign subsidiary with a parent country national (PCN) or with host country nationals (HCNs) and third country nationals (TCNs) in the presence of different kinds of barriers to communication between HQ and the subsidiary requires further investigation. In this context, further analysis is also warranted with regard to the role of a firm’s prior international experience, which may moderate the focal relationships.

The decision concerning how to staff a foreign subsidiary is important, as it determines critical management activities like coordination and control of the subsidiary and knowledge transfer between HQs and the subsidiary (Boyacigiller, 1990; Colakoglu and Caligiuri, 2008; Torbiörn, 1994). In this regard, prior research elaborates on the role that expatriates (as opposed to HCNs and TCNs) play in performing these important tasks (Bonache et al., 2001): First, in terms of coordination and control, expatriates are more likely to share the parent firm’s core values and to comply with HQ’s objectives, both of which ensure that the subsidiary acts in accordance with the HQ’s strategies (Legewie, 2002; Tarique et al., 2006). Second, with regard to expatriates’ role as facilitators of knowledge exchange, the extant literature points out that expatriates have stronger ties with HQ managers and may be regarded as more trustworthy than hires from the host country or a third country, which eases transfer processes between HQ and subsidiary (Björkman et al., 2004; Gupta and Govindarajan, 2000).

Linguistic and geographic differences between a home country and a host country constitute significant barriers to communication, so they also present significant obstacles to coordination and control and to knowledge transfer (Slangen, 2011). Whereas the extant literature highlights that language differences between HQ and the subsidiary and managers’ (lack of) language skills impede subsidiary control and knowledge sharing (Barner-Rasmussen and Björkman, 2005; Marschan-Piekkari et al., 1999b), prior
literature is largely silent on how expatriate staffing decisions are affected by such communication barriers. Moreover, a firm’s prior international experience determines the need for subsidiary control and the capabilities related to knowledge exchange (Erramilli, 1991; Kogut and Zander, 1993). As a firm is more able to bridge distances between the home country and the host country when it has experience operating in international markets (Chang, 1995; Child et al., 2002), international experience might contextualize the relationship between communication barriers and the decision regarding how to staff the subsidiary’s CEO. This dissertation sheds light on this important interaction effect.

Third, given the significance of language barriers for internationalizing firms and the questions regarding the effectiveness of strategies in overcoming such barriers, the extant literature lacks evidence on the advantageousness of these strategies to handle linguistically dissimilar contexts. As the performance outcomes of various strategies undertaken in the context of language barriers are widely unknown, it is particularly difficult for practitioners to assess their usefulness in facilitating communication across countries.

As indicated above, language barriers exert significant influence on firms’ strategic decisions and performance (Gomes and Ramaswamy, 1999). Because of distance and differences between countries, internationally active firms often incur increased costs (Ellis, 2007). Geographic distance, for instance, increases the costs for the transportation of tangible products and intangible goods and services and impedes communication and coordination (Geringer et al., 1989; Ghemawat, 2001; Johanson and Vahlne, 1977). One of the most salient and immediate differences that may exist between countries is the difference in language (Dow and Larimo, 2011; Slangen, 2011). If languages are very different and hence difficult for managers to learn, communication and the necessary knowledge exchange between the home country and the host country can be all but impossible (Harzing and Feely, 2008; Harzing and Pudelko, 2014). Further, if managers lack skills in a foreign language defined as the language to be used for internal communications, conflicts caused by misunderstandings may occur, resulting in suboptimal teamwork and firm performance (Feely and Harzing, 2003).

The literature discusses a variety of strategic decisions a firm can make to overcome (language-related) barriers to internationalization and their inherent benefits and drawbacks. First, scholars as well as practical prevalence point to the usefulness of introducing a common corporate language for internal
communication and documentation within a firm to define a common basis for exchange across language
differences (Marschan-Piekkari et al., 1999a). However, prior research also establishes that a common
language can exclude some employees from communication and even increase translation requirements
and the risk of misunderstandings (Fredriksson et al., 2006). Second, expatriates perform an important
bridging function across language barriers (Boyacigiller, 1990). In contrast, studies further conclude
that the use of expatriates can also have detrimental effects if they, for example, divert communication
lines and facilitate the formation of shadow structures (Harzing and Feely, 2008; Marschan-Piekkari et
al., 1999b). Finally, a firm’s mode of entry into a foreign country affects how it communicates with its
subsidiary and how the subsidiary communicates with stakeholders in the local market (López-Duarte
and Vidal-Suárez, 2010). The decision between a wholly-owned subsidiary and a joint venture and the
choice between a greenfield investment and an acquisition involve different requirements, degrees of
complexity, and costs with regard to communication (Erramilli and Rao, 1993; Slangen, 2011).
Therefore, whether these strategies prove effective in overcoming language barriers is worthy of further
inquiry.

3 Research Objectives and Contributions

3.1 Overview of Studies

This dissertation presents three independent studies, each of which contributes to filling the gaps
identified in prior literature. These three studies help to clarify how country barriers affect the critical
strategic decisions a firm has to make during internationalization and the effects these strategies have
on performance.

To describe the three independent studies in greater detail, Table A – 1 provides information on each of
the studies’ title, research objective, contribution to the literature, and other key characteristics in terms
of the theoretical perspective applied, the core constructs analyzed, the methodology, and the sample
used for the analyses.
Table A – 1: Characteristics of the Three Studies Constituting the Dissertation

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<th>Study</th>
<th>Title</th>
<th>Research Objective</th>
<th>Contribution</th>
<th>Theoretical Perspective</th>
<th>Core Constructs</th>
<th>Methodology</th>
<th>Sample</th>
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<td>Study 1</td>
<td>Which Resources Matter How and Where? A Meta-Analysis on Firms' Foreign Establishment Mode Choice</td>
<td>Investigate the effects of a firm’s knowledge-based and experience-based resources on the establishment mode choice, i.e., the choice between greenfield investment and acquisition, and how cultural distance moderates these effects.</td>
<td>1. Develop an RBV-based framework that encompasses heterogeneous types of resources for a firm’s establishment mode choice. 2. Reduce inconclusive findings in the establishment mode choice literature by considering an important boundary condition (i.e., cultural distance). 3. Facilitate the assessment of the current state of the establishment mode choice research and the systematic development of future research opportunities.</td>
<td>Resource-based view</td>
<td>Dependent variable: Establishment mode choice  Independent variables: Knowledge-based resources, experience-based resources  Moderator: Cultural distance</td>
<td>Meta-analysis</td>
<td>31 studies on firms’ establishment mode choice</td>
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<td>Study 2</td>
<td>Staffing MNCs’ Foreign Subsidiaries: The Joint Effect of Verbal Communication Barriers and International Experience</td>
<td>Analyze the impact of three communication barriers, i.e., native language barrier, foreign language barrier, and geographic distance, on the decision to staff the CEO position of a newly established subsidiary with a parent country national, as opposed to a host or third country national, and contextualize these effects with a firm’s international experience.</td>
<td>1. Develop a communication-based perspective to explain expatriate staffing. 2. Theorize about and partly confirm the role of international experience as a contextual factor that influences MNCs’ expatriate staffing decisions.</td>
<td>Language- and communication-based perspective</td>
<td>Dependent variables: Subsidiary CEO staffing  Independent variables: Native language barrier, foreign language barrier, geographic distance  Moderator: International experience</td>
<td>Binary logistic regression</td>
<td>106 German firms</td>
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<td>Study 3</td>
<td>Which Strategies Help Firms to Overcome Language Barriers? Five Practical Recommendations</td>
<td>Shed light on the significance of language barriers for internationalizing firms and develop practical recommendations based on the analysis of performance effects that central strategies, i.e., the introduction of a common corporate language, expatriation, and entry mode strategies, exert in the presence of language barriers.</td>
<td>1. Highlight the particular importance of language as a barrier to internationalization compared with other dimensions of the psychic distance construct. 2. Develop a guideline for practitioners about which strategies to use to overcome language barriers.</td>
<td>None</td>
<td>Subsidiary performance, common corporate language, expatriation, ownership decision, establishment mode choice, language differences</td>
<td>Descriptive statistics (i.e., mean value comparison, frequency analysis)</td>
<td>Between 95 and 110 German firms (depending on test)</td>
</tr>
</tbody>
</table>
3.2 Study 1: Which Resources Matter How and Where? A Meta-Analysis on Firms' Foreign Establishment Mode Choice

The first study’s research objective is to identify the effects of a firm’s knowledge-based and experienced-based resources on the establishment mode choice. Further, this study aims at clarifying how cultural distance moderates these effects.

Using the RBV as its theoretical foundation, the study develops the rationale for the focal relationships and tests them by means of meta-analysis on a sample of 31 published and unpublished articles on firms’ establishment mode choices. The findings indicate that knowledge-based and experience-based resources have contrasting effects on the establishment mode choice and that the effect of knowledge-based resources on that choice varies with the level of cultural distance between the home country and host country.

The study contributes to the literature by developing an RBV-based framework that explains how firms adapt the choice between an acquisitive market entry and an entry by greenfield investment to their resource bases. Moreover, the study determines how cultural distance moderates the effects of two types of resources – knowledge-based and experience-based – thereby helping to resolve inconclusive findings in the literature. In addition, based on the meta-analysis methodology, the study aggregates existing empirical evidence in order to provide an overview of the current state of research on the establishment mode choice and to develop systematically a future research agenda that goes beyond what single studies can provide.

3.3 Study 2: Staffing MNCs’ Foreign Subsidiaries: The Joint Effect of Verbal Communication Barriers and International Experience

The second study identifies the impact of three communication barriers, i.e., the native language barrier, the foreign language barrier, and geographic distance, on the decision to staff the CEO position of a newly established subsidiary with a PCN expatriate, as opposed to an HCN or a TCN. In this context, the study also determines the moderating effect of a firm’s international experience on these relationships.
Drawing on a communication-based perspective, this study develops hypotheses for the impact of the three types of communication barriers on the decision concerning the subsidiary’s CEO staffing and the moderating influence of international experience. Using binary logistic regressions on a sample of 106 internationalizing German firms, the study finds that, whereas the native language barrier has no significant effect on the staffing decision, the foreign language barrier increases the likelihood of employing a PCN, although the propensity to send PCNs abroad decreases with increasing geographic distance. The analyses also confirm the moderating impact of a firm’s prior international experience on the CEO staffing decision.

The study contributes to the expatriate staffing literature by developing a communication-based perspective for the widely studied decision between choosing an expatriate or an HCN or a TCN as CEO for a foreign subsidiary. By employing a firm’s international experience as a contextual factor and validating its effect on the focal relationships empirically, the study also points to the complexity of staffing decisions, especially when they are made in the context of language- or distance-related communication barriers.

3.4 Study 3: Which Strategies Help Firms to Overcome Language Barriers? Five Practical Recommendations

The third study sheds light on the significance of language barriers in a firm’s internationalization attempt and develops practical recommendations for how well suited central firm strategies, i.e., the introduction of a common corporate language, expatriation, and entry mode strategies, are to overcoming these language barriers.

The study elucidates how language barriers affect a firm’s international activities with regard to communication, knowledge exchange, and control, and discusses the performance effects the above mentioned strategies have in the presence of language barriers. Based on multiple mean value comparisons and frequency analyses on a sample of German firms, the study finds that a subsidiary’s performance varies depending on the strategy used, indicating that some strategic choices are better suited to overcoming language barriers than others are.
The study’s first contribution to the literature is its highlighting that, compared to other barriers induced by the dimensions of the psychic distance concept, the language barrier has particular importance for internationalizing firms. Moreover, the study offers an encompassing set of practical recommendations that can help managers cope with language barriers to internationalization.

4 Additional Remarks

The three studies that constitute the body of this dissertation were developed in separate publication projects, so they are in different states of publication.


Table A – 2 outlines the studies’ current state in the publication process, the conferences they were presented at, and the share each author contributed to the study.

Table A – 2: State of Publication of the Three Studies

<table>
<thead>
<tr>
<th>Study</th>
<th>Current State</th>
<th>Conferences</th>
<th>Share of Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Study 1</td>
<td>Published in Journal of Management Studies (JMS)</td>
<td>39th Annual Conference of the European International Business Academy (EIBA), Bremen, Germany, December 12-14, 2013; Annual Meeting of the Academy of International Business (AIB), Vancouver, Canada, June 23-26, 2014</td>
<td>Hendrik Klier 35%</td>
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<td></td>
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<td>Christian Schwens 30%</td>
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<tr>
<td></td>
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<td>Florian Zapkau 30%</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Desislava Dikova 5%</td>
</tr>
<tr>
<td>Study 2</td>
<td>Unpublished working paper</td>
<td>41st Annual Conference of the European International Business Academy (EIBA), Rio de Janeiro, Brazil, December 1-3, 2015; 42nd Annual Conference of the European International Business Academy (EIBA), Vienna, Austria, December 2-4, 2016</td>
<td>Hendrik Klier 90%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Christian Schwens 10%</td>
</tr>
<tr>
<td>Study 3</td>
<td>Unpublished working paper</td>
<td>None</td>
<td>Hendrik Klier 95%</td>
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<td>Christian Schwens 5%</td>
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</tbody>
</table>
Study 1: Which Resources Matter How and Where? A Meta-Analysis on Firms’ Establishment Mode Choice

1 Introduction

Establishment mode choice is one form of a firm’s foreign market entry mode choice: referring to the acquisition of an existing firm or the setup of a new firm from scratch by means of a greenfield investment (Hennart, 2009; Hennart and Slagen, 2015b). The choice between a greenfield investment or the acquisition of an existing firm can unfold in a foreign entry with partial or full ownership. However, the establishment mode choice and the ownership decision differ (Cho and Padmanabhan, 1995). The ownership decision primarily depends on the parent firm’s aspired amount of control over the foreign subsidiary’s assets, whereas the establishment mode choice primarily depends on the types of resources employed in the parent firm and the foreign subsidiary (Dikova and van Witteloostuijn, 2007).

Firm resources belong to the most frequently researched antecedents of the establishment mode choice (Dikova and Brouthers, 2015). However, extant literature has several shortcomings. First, although firms typically possess different types of resources (Miller and Shamsie, 1996), the majority of prior studies tends to focus on single resource types and their impact on a firm’s establishment mode choice (e.g., Mudambi and Mudambi, 2002). Second, prior studies present diverse theoretical arguments that point to opposite directions regarding resources’ impact on firm’s establishment mode choice culminating in inconclusive empirical findings (Dikova and Brouthers, 2015). For example, some studies theoretically establish that firms with abundant knowledge-related resources such as marketing resources prefer greenfield investments (e.g., Tsai and Cheng, 2004), while others develop rationale that such firms more likely opt for acquisitions (e.g., Hennart and Park, 1993). Further, past studies argue that firms with experience-related resources derived from extensive international presence have a preference for greenfield investments (e.g., Brouthers and Brouthers, 2000) and for acquisitions (e.g., Mudambi and

1 Consistent with Slagen and Hennart (2007), this paper understands entry mode choice as a research field including (but not limited to) different choices such as the one between greenfield investment and acquisition, as well as between joint ventures and wholly-owned subsidiaries, or between non-equity (e.g., exporting) and equity (e.g., acquisition) entry modes.
Mudambi, 2002). Third, despite the apparent diversity of theoretical arguments and empirical findings, only few studies (e.g., Slangen and Hennart, 2008b) develop a rationale for more complex interactive relationships allowing for a better understanding of the boundary conditions under which resources affect a firm’s establishment mode choice. Taken together, a theoretical framework that simultaneously a) differentiates between heterogeneous types of resources, b) provides a rationale that consistently explains how firms adapt their establishment mode choice to their resource base, and c) reflects on contextual factors that intervene in the consistency of the direct relationships is largely missing.

The resource-based view (RBV) (Barney, 1991; Wernerfelt, 1984) can assist in developing such a framework. According to the RBV, firms have to manage their valuable, rare, non-imitable, and non-substitutable resources to achieve sustainable competitive advantages (Sirmon et al., 2007). In turn, firms’ strategic choices depend on firm-specific resources (Newbert, 2007). That is, firms adapt their strategic decisions to their resource base either by exploiting existing advantages or by seeking to develop new advantages. In an attempt to enrich the predominant firm-level (internal) focus of the RBV, several studies point at the context-dependency of its theoretical postulates (e.g., Brush and Artz, 1999; Miller and Shamsie, 1996; Priem and Butler, 2001). A major argument put forward in this literature is that an unfamiliar environmental context causes an “information deficit [that] affects the way firms must manage resources” (Sirmon et al., 2007, p. 275).

Drawing on the RBV, the present paper examines the impact of knowledge-based (i.e., technological resources, marketing resources) and experience-based (i.e., general international experience, host country experience, establishment mode experience) resources on a firm’s establishment mode choice. Further, we consider the boundary conditions of these relationships and argue that the way resources influence the establishment mode choice varies with the degree of the firm’s unfamiliarity with the foreign context, which induces information deficits for the investor (Björkman et al., 2007; Drogendijk and Slangen, 2006). Thus, we study how the relationships between different types of resources and a firm’s establishment mode choice vary with cultural distance (i.e., the extent to which shared norms and values differ between countries (Drogendijk and Slangen, 2006)). Cultural distance is a key construct in international business research (Hutzschenreuter et al., 2015) and specifically in the establishment mode choice literature (Dikova and Brouthers, 2015). We establish that cultural distance is a major source of
information deficits (Gong, 2003; Roth and O'Donnell, 1996) affecting how resources influence a firm’s establishment mode choice (Drogendijk and Slangen, 2006; Harzing, 2003).

Methodologically, we conduct a meta-analysis. This method allows the identification of overall directions and effect sizes based on existing empirical evidence by using weighted average techniques (Hedges and Olkin, 1985; Hunter and Schmidt, 2004). Meta-analysis also facilitates the contextualization of relationships by considering moderator variables (Dalton et al., 1999; Hunter and Schmidt, 1990). While some meta-analyses on different entry mode choices exist (e.g., Morschett et al., 2010; Tihanyi et al., 2005; Zhao et al., 2004), the present study is, to our knowledge, the first specifically focusing on the establishment mode choice. To this end, we integrate empirical evidence from 31 independent studies including 13,559 establishment mode choices.

We offer three contributions to extant research. First, we envisage our work to inform the ongoing discussion on the role of the RBV as a theoretical framework (e.g., Barney et al., 2011; Kraaijenbrink et al., 2010). Prior studies emphasize the need to demonstrate the usefulness of the RBV in further strategy areas (e.g., Das and Teng, 2000). We respond to such calls by presenting a meta-analytical assessment whether RBV’s “predictions correspond to reality observed for populations of firms” (Godfrey and Hill, 1995, p. 530) in the specific domain of establishment mode choice research. More specifically, we contribute to theory by developing an RBV-based framework encompassing heterogeneous types of resources and explaining how firms exploit existing and seek new resources through their establishment mode choice. Thus, we argue that firms adapt establishment mode strategies to their resource base not only to exploit existing advantages, but also to develop new advantages (Ekeledo and Sivakumar, 2004; Sharma and Erramilli, 2004). In this regard, we provide a more differentiated and theoretically consistent explanation of how resources affect a firm’s choice between greenfield investment and acquisition.

Second, by studying an important boundary condition of the relationship between different types of resources and a firm’s establishment mode choice, we contribute to reducing inconclusive findings in the establishment mode choice literature. By theoretically establishing and empirically validating the moderating influence of cultural distance, we move the current discussion forward by not only asking which types of resources impact a firm’s establishment mode choice, but also under what levels of
cultural distance the influence becomes stronger or weaker. In this regard, we also contribute to the broader literature addressing the context-specificity of the RBV (e.g., Sirmon et al., 2007).

Third, conducting a meta-analysis enables us to empirically resolve ambiguities in establishment mode choice research through systematic aggregation and evaluation of existing empirical evidence (Rauch and Frese, 2006). Moreover, the methodology allows for assessing whether differences between studies emanate from contextual factors even when a moderating effect was not included in the primary studies (Schlaegel and Koenig, 2014). Based on these advantages, a meta-analysis facilitates theory advancement, the assessment of the current state of establishment mode choice research, and the systematic development of future research opportunities in the focal research domain and beyond.

2 Theoretical Background

2.1 Classification of Establishment Mode Choice

Research on the establishment mode choice is a part of the general entry mode choice literature (Brouthers and Hennart, 2007). Foreign market entry mode choice research focuses on determinants and outcomes of a firm’s decision between different entry modes, thus complementing related research that deals with the characteristics and outcomes of specific entry modes such as cross-border acquisitions (e.g., Shimizu et al., 2004; Stahl and Voigt, 2008). Adhering to the importance of the entry mode choice, prior meta-analyses examine the impact of cultural distance (Tihanyi et al., 2005), transaction cost determinants (Zhao et al., 2004), and the external environment (Morschett et al., 2010) on this choice. The knowledge obtained from prior meta-analyses is supplemented by systematic reviews on foreign market entry mode choice (e.g., Brouthers and Hennart, 2007; Canabal and White, 2008; Laufs and Schwens, 2014).

Foreign market entry mode choice includes at least three related choices (Slangen and Hennart, 2007). One choice is between non-equity (e.g., exporting) and equity (e.g., acquisition) entry modes. Within the category of equity entry modes, two additional choices are relevant. The establishment mode choice refers to a firm’s choice between establishing a foreign operation from scratch or buying an existing foreign entity (Hennart, 2009; Hennart and Slangen, 2015b). The ownership decision refers to a firm’s
decision whether to control the assets/operations of the foreign entity alone or together with a local partner. While both choices are resource-dependent, they are also distinct. The establishment mode choice primarily depends on the types of resources embedded in the parent firm and in the foreign subsidiary, whereas the ownership decision primarily depends on the parent firm’s absolute resource commitment (Dikova and van Witteloostuijn, 2007; Kumar and Subramanian, 1997).

2.2 The Resource-Based View

The RBV (Barney, 1991; Wernerfelt, 1984) has emerged as a prominent theory focusing on how resources influence a firm’s strategies and objectives (Newbert, 2007). According to Wernerfelt (1984, p. 172), resources are “(tangible and intangible) assets which are tied semipermanently to the firm”. Two basic assumptions lay the foundation of the RBV: first, firms are heterogeneous in terms of the resources they possess and, second, these resources are not perfectly mobile across firms (Barney, 1991). To achieve a sustainable competitive advantage, a firm’s resources have to be valuable (i.e., exploit opportunities), rare (i.e., not widely held among competitors), non-imitable (i.e., not easily replicable by competitors), and non-substitutable (i.e., no equivalent resources available to competitors) (Barney, 1991; Priem and Butler, 2001). Firms choose strategies which either exploit existing resources or access new resources (Das and Teng, 2000). Building on RBV’s major tenet of resource heterogeneity, firms are collections of several heterogeneous types of resources (Barney, 1991; Wernerfelt, 1984). Thus, to obtain a more precise understanding of the influence of different resources on a firm’s strategic choices, a distinction between different types of organizational resources is important (Miller and Shamsie, 1996).

2 The majority of prior studies (e.g., Cho and Padmanabhan, 1995; Dikova and van Witteloostuijn, 2007; Hennart and Park, 1993) follows this distinction and considers greenfield investment and acquisition as alternative establishment modes, whereas the decision between a joint venture and a wholly-owned subsidiary represents differing degrees of ownership. However, some studies treat joint ventures as a third alternative establishment mode (e.g., Chang and Rosenzweig, 2001; Kogut and Singh, 1988).

3 Resources do not always have a positive influence on firm’s competitive advantage but can constitute both firm-specific advantages and disadvantages (Wernerfelt, 1984). For example, distinctive inadequacies or resource weaknesses (e.g., rigidities stemming from competencies such as distinctive production know-how that hamper firm’s ability to adapt to environmental changes (Atuahene-Gima, 2005)) are the counterparts to resource-based strengths and competences (West and DeCastro, 2001). However, this discussion does not compromise the premise of our paper in such that resources directly impact firms’ strategies (Newbert, 2007) and, hence, their establishment mode choices.
To advance the RBV, more recent works express the need to enrich its postulates with a context perspective (e.g., Kraaijenbrink et al., 2010; Priem and Butler, 2001; Sirmon et al., 2007) in order to fathom the theory’s boundary conditions (Dubin, 1976; Whetten, 1989). A consideration of boundary conditions is crucial to the RBV, because contextual factors may alter resource decisions (Oliver, 1997). In this regard, acknowledging the works by Miller and Shamsie (1996) as well as Brush and Artz (1999) who made initial steps in contextualizing RBV propositions, Priem and Butler (2001) see a demand for the addition of a contextual perspective that helps clarifying the role of resources in different contexts. A major argument of current work reflecting on the boundary conditions of the RBV is that an unfamiliar environmental context causes information deficits, which in turn influence the way firms manage their resources (Sirmon et al., 2007). Consistent with this rationale, Keats and Hitt (1988) reinforce that firms manage resources differently when information deficits prevail.

2.3 A Resource-Based Perspective on Firm’s Establishment Mode Choice

The influence of resources on a firm’s establishment mode choice has attracted considerable research attention (Dikova and Brouthers, 2015). For example, Brouthers and Brouthers (2000) argue that firms, which have developed technological resources, more likely leverage these resources through greenfield investments abroad. This argument finds empirical support in several other studies investigating the influence of technological resources on a firm’s establishment mode choice (e.g., Andersson and Svensson, 1994; Hennart and Park, 1993). Prior studies also establish that firms, which possess abundant marketing resources, more likely choose greenfield investments, as the acquisition of an existing entity becomes less attractive when the firm has already developed products and brands differentiating it from competitors (e.g., Tsai and Cheng, 2004). In contrast, Hennart and Park (1993) argue that firms with more marketing resources are more likely to opt for acquisitions, as new entrants in foreign markets can realize synergies, for example, by combining their existing brands with those of the acquired entities.

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4 A recent literature review by Dikova and Brouthers (2015) identifies additional frequently examined firm-level predictors of the establishment mode choice like firm size or other types of resources (than those described in this section) such as financial strength (cf. Appendix 1). However, the authors indicate that “[a] large number of firm-level variables [included in Appendix 1] are included as controls […] without any specific theoretical relationship to establishment mode choice” (p. 12). To emphasize the theoretical rationale that the studies forward regarding the influence of resources on a firm’s establishment mode choice, we focus only on those studies that investigate a resource as a main construct (i.e., formulate a hypothesis for the resource’s influence on firm’s establishment mode choice).
Prior literature also examines different types of experience-related resources. For example, Mudambi and Mudambi (2002) argue and empirically find that a firm’s general multinational experience enhances its ability to integrate and monitor an acquired entity making acquisitions more likely. However, other studies argue that firms with abundant multinational experience have a lower necessity to pay a premium for a foreign firm that possesses knowledge similar to the knowledge already available to the investing firm. Therefore, firms with multinational experience are more likely to leverage this resource through greenfield investments (e.g., Brouthers and Brouthers, 2000; Padmanabhan and Cho, 1999). With regard to host-country experience, the majority of studies puts forward that investors in possession of this resource experience lower monitoring and integration problems (which typically occur in the course of an acquisition) which in turn enhances the firm’s probability to opt for an acquisition (e.g., Andersson and Svensson, 1994; Hennart and Park, 1993). Others, however, argue that an acquisition becomes more likely for firms without host-country experience because the acquired entity provides access to knowledge that the investing firm lacks (Larimo, 2003). Finally, past studies examine prior establishment mode experience and its influence on subsequent establishment mode choices (e.g., Padmanabhan and Cho, 1999). These studies theoretically establish and empirically find that firms with prior experience with a particular establishment mode develop routines to manage this type of establishment making recurring mode choices more likely.

Adhering to RBV’s assumption that firms are collections of heterogeneous types of resources (Barney, 1991; Wernerfelt, 1984), we draw on the above literature and differentiate between knowledge-based and experience-based resources. Knowledge-based and experience-based resources represent fundamental types of non-imitable and non-substitutable resources. Reflecting a core tenet of the RBV, firms without the respective resources cannot easily replicate or substitute processes or skills developed through both resource types (Barney, 1991; Miller and Shamsie, 1996; Tseng et al., 2007). Knowledge-based resources encompass technological resources (i.e., assets used to develop product or process innovations) and marketing resources (i.e., assets employed to differentiate products from competitors and to generate a positive brand image) (Kotabe et al., 2002; Silverman, 1999). From an RBV perspective, both types of knowledge-based resources are complementary. Technological resources cater to the creation of customer value by innovating, producing, and delivering products to markets. As
firms have little motivation to create value when factors preventing the immediate dissipation of the respective benefits are absent, the employment of marketing resources to shield the firm against competition is necessary to appropriate value (e.g., extract profits from innovative products) (King and Slotegraaf, 2011; Mizik and Jacobson, 2003). Firms independently strive for value creation and/or appropriation (Coff, 2010). Consequently, prior research emphasizes that technological (e.g., Brouthers and Brouthers, 2000) as well as marketing resources (e.g., Tsai and Cheng, 2004) influence a firm’s establishment mode choice.

Experience-based resources refer to a firm’s knowledge on how to operate internationally. We identify three types of experience-based resources influencing a firm’s establishment mode choice. General international experience relates to the experience obtained from managing foreign operations without reference to a specific country (Padmanabhan and Cho, 1999; Slangen and Hennart, 2008b). Host country experience entails experience related to a specific country (Larimo, 2003; Padmanabhan and Cho, 1999). Finally, establishment mode experience comprises two separate kinds of mode-specific experience gained from conducting prior acquisitive (acquisition experience) or greenfield (greenfield experience) foreign market entries (Padmanabhan and Cho, 1999). In the context of firms’ establishment mode choices, international experience represents “a critical, but often scarce skill” (Dow and Larimo, 2011, p. 325). Firm’s capability to efficiently deal with different foreign environments represents tacit knowledge difficult to obtain in disembodied form, which competitors lacking the respective experience are unable to imitate or substitute (Hennart and Park, 1993). Firms with experience-based resources are more familiar with operating in foreign contexts and have a better understanding of the particularities of specific foreign markets (Slangen and Hennart, 2008b). Further, experienced firms have developed routines to deal with the challenges related with foreign market operations (Padmanabhan and Cho, 1999). Therefore, prior literature emphasizes that experience-based resources influence a firm’s establishment mode choice (Dow and Larimo, 2011; Padmanabhan and Cho, 1999).

As part of the psychic distance concept, cultural distance prevents the flow of information between markets (Johanson and Vahlne, 1977). Extant literature investigates the impact of cultural distance on firm’s establishment mode choice primarily arguing that firms are more likely to enter culturally distant countries through greenfield investments (e.g., Drogendijk and Slangen, 2006; Larimo, 2003). The
major rationale these studies develop is that acquisitions are harder to manage in culturally distant countries, because the distance exacerbates the search and interpretation of information, renders communication between home and host country more difficult, and generally causes misunderstandings. In contrast, Brouthers and Brouthers (2000) hypothesize that the risks related with high levels of cultural distance are better manageable through acquisitions; however, their empirical results do not support this theoretical prediction. Based on the aforementioned studies, Slangen and Hennart (2008b) argue that the role of cultural distance requires a more detailed examination and develop hypotheses for the interactive effect between cultural distance and different types of international experience on firm’s establishment mode choice. Specifically, the authors argue that international experience becomes particularly valuable in the presence of cultural distance, as it enables the firm to cope with distance-related challenges of foreign operations.

To sum up, despite important contributions to the field, a theoretical framework encompassing heterogeneous types of resources and consistently explaining how firms adapt their establishment mode choice to their resource base as well as reflecting on contextual factors that intervene in the consistency of the direct relationships is largely missing. Drawing on the RBV, the present paper develops such a framework explaining how knowledge-based and experience-based resources influence a firm’s establishment mode choice. Following the argument that an unfamiliar environmental context causes information deficits, which in turn influence how firms manage their resources (Sirmon et al., 2007), we advocate a moderating role of cultural distance on the direct relationships. We acknowledge that other factors such as institutional distance may also induce information deficits (Dikova and Brouthers, 2015). However, we focus on cultural distance as, first, compared to cultural distance, institutional distance was introduced considerably later in the general international business (Hutzschenerreuter et al., 2015) and establishment mode choice literature (Dikova and Brouthers, 2015). Second, existing establishment mode choice studies primarily focus on institutional distance to juxtapose the contexts of developed and emerging markets (Arslan and Larimo, 2011) or transition economies (Dikova, 2012; Dikova and van Witteloostuijn, 2007). Thus, we consider cultural distance to be a more enduring contextual factor that represents the past and ongoing debate in the field in a more comprehensive way.
3 Hypotheses

3.1 Knowledge-Based Resources

Drawing on the RBV, we argue that firms with abundant technological resources exploit such resources abroad by means of a greenfield investment, while firms with limited technological resources are more likely to acquire foreign firms to strengthen their technological capabilities and competitive position. The argumentation grounds on two main considerations. First, according to the RBV, firms require particularly unique resources in order to sustain their competitive advantage (Datta et al., 2002). Hence, firms establishing a foreign operation have to protect their technological know-how and skills from unwanted dissemination when exploiting them abroad (Dikova and van Witteloostuijn, 2007; Tsai and Cheng, 2004). Establishing a greenfield investment in particular reduces the threat of dissemination of firm-specific advantages (Brotherson and Brotherson, 2000; Hennart and Park, 1993), as greenfields allow better than acquisitions the implementation of organization-based technologies from the outset (Choi and Parsa, 2012).

Second, as technological resources are deeply embedded in the parent firm’s organization and its labor force, it is difficult to transfer these know-how and skills to an acquired foreign entity (Dikova and van Witteloostuijn, 2007; Hennart and Park, 1993). Greenfield entries enable the parent firm to hire and train local employees from the outset, which in turn facilitates the establishment of firm-specific practices, processes, and routines (Dikova and van Witteloostuijn, 2007). Thus, if parent firms already have abundant technological resources, they are more likely to engage in greenfield investments to exploit these resources abroad.

In contrast, parent firms less endowed with technological resources are more likely to engage in acquisitions in order to seek such resources abroad (Barkema and Vermeulen, 1998; Larimo, 2003). That is, an acquirer purchases technological resources bundled in a foreign firm (Anand and Delios, 2002). Acquiring firms seek targets with existent technological skills offering an opportunity to improve the capabilities of both companies after the acquisition (Capron and Mitchell, 1998). As technological resources are costly and time-consuming to develop internally and because building required capabilities internally may not always be successful (Ranft and Lord, 2002; Wernerfelt, 1984), acquisitions represent
an effective means of strengthening a firm’s technological resource base and, in turn, its competitive position (Cho and Padmanabhan, 1995; Larimo, 2003).

Consistent with RBV rationale, we further argue that firms with abundant marketing resources exploit such knowledge and skills abroad in order to profit from reputation spillovers and brand recognition in foreign markets by means of greenfield investment (Dikova and Brouthers, 2015). In contrast, firms with limited marketing resources are more likely to acquire foreign firms to obtain relevant marketing expertise (Choi and Parsa, 2012). Sustainable competitive advantages may result from valuable, rare, and difficult to imitate marketing resources, such as brands, sales forces, or distribution channels (Andras and Srinivasan, 2003; Capron and Hulland, 1999). While the transferability of different marketing resources may vary (Capron and Hulland, 1999), unique marketing know-how and skills can generally be used to improve customer relationships, render products distinctive, or create unique brands in home and host countries (Tseng et al., 2007). Hence, firms with abundant marketing resources can exploit their marketing expertise by transferring respective knowledge and skills to foreign markets in order to generate spillover effects abroad (Chen and Zeng, 2004). In this regard, greenfield investments allow better than acquisitions to efficiently transfer marketing knowledge and skills across borders, as they enable establishing a common organizational culture from the outset, whereas acquisitions come with existing employees and practices (Brouthers and Dikova, 2010). A common organizational culture fosters the transfer of unique (marketing) knowledge between parent firm and subsidiary, whereas cultural clashes between parent and acquired firm prevent efficient knowledge flows (Brouthers and Dikova, 2010).

Even though firms may create synergies by combining their own marketing skills with acquired brands (Hennart and Park, 1993), the mostly intangible nature of marketing resources impedes their separation from the organization making it difficult to redeploy such assets to an acquired entity (Brouthers and Brouthers, 2000). Hence, firms equipped with larger amounts of these valuable and rare assets are more likely to establish greenfield investments in order to transfer and exploit them when setting up a foreign operation (Barkema and Vermeulen, 1998; Cheng, 2006). In contrast, firms with limited marketing resources are more likely to acquire foreign firms to overcome reputation barriers and to enjoy faster brand building abroad (Chen and Zeng, 2004). As the development of marketing resources is difficult,
time-consuming, and costly (Anand and Delios, 2002), acquisitions often represent the only viable means for firms with limited resources to obtain marketing expertise and, in turn, achieve competitive marketing advantages (Capron and Hulland, 1999). In sum, we hypothesize:

*Hypothesis 1. Parent firms, which possess more knowledge-based resources, are more likely to establish a foreign subsidiary via greenfield investment (as opposed to an acquisition).*

### 3.2 Experience-Based Resources

The identification and valuation of acquisition targets and the integration of acquired firms represent major challenges for internationalizing firms (Brouthers and Dikova, 2010). Firms equipped with more general international experience possess unique and path-dependent knowledge about international markets and competences how to operate abroad that firms without such experience are unlikely to imitate (Eriksson et al., 1997). In turn, international experience represents a valuable resource to the firm as such knowledge enables the firm to pursue strategies with greater efficiency (Ainuddin et al., 2007). Referring to the establishment mode choice, firms with more general international experience possess hard to imitate knowledge and competences that are valuable in reducing the risks associated with acquisitions (Padmanabhan and Cho, 1999), facilitating the integration of internationally diverse subsidiaries (Kogut and Singh, 1988), and for better managing acquisitions across different countries (Slangen and Hennart, 2008b).

As a firm’s general international experience comprises knowledge not relating to a specific country (Dow and Larimo, 2011), host-country experience complements this resource. Host-country experience represents experiential knowledge relating to a specific country and, therefore, cannot be substituted by experiential knowledge from other countries (Liu et al., 2016; Park et al., 2011). Given the uniqueness of a firm’s experience with a particular host country (Dow and Larimo, 2011), it is almost impossible for firms without the respective experiential knowledge to imitate this rare resource. As such, firms possessing host-country experience have a unique advantage over firms lacking such experience, as they have a better understanding of how firms in specific locations operate as well as which customs and communication styles prevail (Slangen and Hennart, 2008b). This valuable knowledge eases the identification and assessment of local acquisition targets (Larimo, 2003). Moreover, host-country
experience is particularly valuable in negotiations with local acquisitions targets (e.g., it provides knowledge of local advisors to aid the acquisition process (Dikova et al., 2010)), which further reduces the acquisition premium and eases the integration of the acquired firm (Barkema and Vermeulen, 1998). Thus, host country experience is a valuable resource that firms are likely to exploit in acquisitions.

We acknowledge the ongoing discussion on the impact of firm’s general international experience as well as host-country experience on the establishment mode choice (see Dow and Larimo (2011) for a review of extant findings). Prior research is to some extent inconclusive with regard to whether abundant general international experience more likely leads to acquisitions (e.g., Harzing, 2002; Mudambi and Mudambi, 2002) or to greenfield investments (Bröthers and Bröthers, 2000; Padmanabhan and Cho, 1999). In contrast, the majority of extant studies find host-country experience to increase the likelihood of firms to opt for an acquisition (e.g., Andersson and Svensson, 1994; Slangen and Hennart, 2008b) leading to the question whether both types of experience should be combined (Dow and Larimo, 2011). However, based on the above rationale, we argue that firms with abundant general international experience as well as host-country experience will more likely opt for acquisitions when establishing a foreign operation. Internationally experienced firms can not only identify better-fitting acquisition targets and more effectively negotiate with the local management to reduce acquisition premiums, but also exploit their valuable experiential knowledge and the respective skills to better integrate and manage acquired firms. In contrast, firms with limited general international experience or host-country experience will more likely opt for greenfield investments, as they lack the necessary knowledge and competencies to appropriately valuate and successfully integrate acquired foreign assets (Mudambi and Mudambi, 2002).

Establishment mode experience represents rare experiential knowledge that only firms with respective prior acquisitive respectively greenfield foreign market entries possess (Padmanabhan and Cho, 1999). Such experience is specific to a firm’s establishment mode choice history making the imitation or substitution with other (mode) experiences all but impossible (Ainuddin et al., 2007). In turn, establishment mode experience is valuable for firms, as experienced firms can resort to the obtained knowledge and skills when conducting a new foreign operation. With regard to acquisition experience, we argue that firms repeatedly engaging in acquisitions develop routines in dealing with acquisition-
based challenges (Brøthers and Dikova, 2010; Vermeulen and Barkema, 2001). International acquisitions are challenging because firms need to identify appropriate acquisition targets and value target-firms correctly. Moreover, difficulties arise during the integration of the acquired firm into the parent’s organization (Brøthers and Dikova, 2010). Experienced firms can exploit their valuable knowledge on how to successfully integrate acquired firms for subsequent acquisition entries (Halebian and Finkelstein, 1999). Consistent with our argumentation, Nadolska and Barkema (2007) show that the frequency of acquiring abroad increases with international experience. Likewise, firms with greenfield experience can exploit the capabilities and routines developed in prior greenfield investments in building up a foreign subsidiary from scratch. By engaging in multiple greenfields, investing firms develop skills and routines to effectively establish greenfield investments (e.g., mold organizational structures and processes as well as hire and train employees) (Drogendijk and Slangen, 2006). Although greenfield experience enhances a firm’s propensity to subsequently establish a foreign subsidiary via a greenfield investment (Slangen and Hennart, 2008b), overall, we assume that firms with abundant experience-based resources opt for acquisitions. In sum, we hypothesize:

Hypothesis 2. Parent firms, which possess more experience-based resources, are more likely to establish a foreign subsidiary via acquisition (as opposed to a greenfield investment).

3.3 The Moderating Effect of Cultural Distance

Greenfield investments better protect a firm’s valuable technological resources against unwanted dissemination and facilitate the effective transfer of technological knowledge across borders than acquisitions (Brøthers and Brøthers, 2000; Hennart and Park, 1993). The importance of protecting and effectively transferring technological knowledge is particularly pronounced in the presence of high cultural distance, as firms lack information on how to communicate with and monitor foreign subsidiaries making greenfield investments even more advantageous than acquisitions (Dow and Larimo, 2011). Technological resources are deeply embedded in the parent firm’s organization impeding their transferability across firms (Dikova and van Witteloostuijn, 2007; Hennart and Park, 1993). When engaging in acquisitions in culturally distant countries, large organizational differences between the investing firm and the acquired firm exist (Kogut and Singh, 1988) making knowledge
transfer and adoption more complicated due to communication deficits and likely misunderstandings (Lyles and Salk, 1996; Tiemessen et al., 1997). In contrast, in culturally distant locations, greenfield investments enable firms endowed with knowledge-based resources to establish closely-matching organizational structures and to hire local workforce that fits the skill profiles required for the successful transfer and adoption of proprietary knowledge (Brouthers and Dikova, 2010; Drogendijk and Slangen, 2006).

Greenfield investments allow firms with abundant marketing resources to exploit such resources in host countries facilitating spillover effects as well as higher brand recognition abroad. Increasing cultural distance, however, hampers the transferability of marketing resources, because especially brand reputation and sales forces are often culture-specific (Chen, 2008). Hence, customers in culturally distant host countries are often unfamiliar with domestic advertising and brands (Chen and Zeng, 2004). In turn, this creates information deficits for the investor, as reputable domestic brands neither reduce quality uncertainty nor generate symbolic meaning for customers abroad (Chen and Hennart, 2002). However, firms still find using their abundant marketing resources to rebuild brand reputation abroad by means of a greenfield investment more efficient than obtaining a reputable brand through acquisition. Having abundant marketing resources enables firms to afford the time- and resource-intense process of reputation building abroad (Chen and Zeng, 2004). Moreover, greenfield investments allow to hire local employees who have culture-specific marketing skills fostering the introduction of organizational (marketing) practices from the outset without the need to align extant organizational cultures (Drogendijk and Slangen, 2006; Hennart and Park, 1993). Prior research advances that firms transferring their extensive marketing expertise via greenfield investments are quickly able to develop advertising campaigns after market entry (Yip, 1982). Hence, firms with advanced marketing resources that enter foreign markets via greenfield investment are able to reduce reputation barriers as well as to rebuild brand reputation and, thus, to overcome information deficits even when reputation spillovers across culturally distant countries are limited (Chen and Zeng, 2004).

In contrast, brands as well as sales forces are often linked to a firm’s unique culture and routines making acquisitive entries in the presence of cultural distance even more difficult (Capron and Hulland, 1999). Cultural distance increases the differences between the acquiring and target firm’s organizational
systems, which further impedes the transfer and appropriate management of such marketing resources (Capron and Hulland, 1999; Stahl and Voigt, 2008). In addition, cultural differences impede the valuation of potential brands to be acquired abroad and firms incur additional costs to overcome these information deficits increasing the costs of acquisitions – often to a prohibitive level (Chen and Hennart, 2002; 2004). In sum, we hypothesize:

\textit{Hypothesis 3a. The propensity of parent firms with abundant knowledge-based resources to opt for a greenfield investment increases with higher cultural distance.}

The value of general international experience and host country experience enhances in the presence of cultural distance particularly for acquisitive foreign market entries. Experienced firms better understand the considerably different norms and values between countries, which is particularly valuable for the successful integration of acquired subsidiaries across countries as well as for the identification, valuation, and integration of local acquisition targets (Slangen and Hennart, 2008b). Internationally experienced firms face lower information deficits in the presence of cultural distance, as they are aware of potential problems that may arise during the acquisition process in international markets and have developed techniques for dealing with such challenges.

Likewise, host country experience better enables firms to identify, assess, and integrate local acquisition targets (Larimo, 2003; Slangen and Hennart, 2008b). Firms with abundant host country experience have unique knowledge about acquisition targets’ context-dependent organizational characteristics facilitating the identification and evaluation of culturally different acquisition candidates (Barkema and Vermeulen, 1998). Moreover, host country experienced firms have greater familiarity with the respective country’s culture, language, and customs reducing the likelihood of linguistic or cultural misunderstandings and, hence, easing the integration of acquired firms (Dow and Larimo, 2009). Thus, firms with abundant experience-based resources have greater cross-cultural management skills and, therefore, face lower information deficits when conducting an acquisition in culturally distant countries (Slangen and Hennart, 2008b).\textsuperscript{5}

\textsuperscript{5} Slangen and Hennart (2008b) present competing hypotheses for the interactive effect between international experience and cultural distance. Thus, in addition to the aforementioned reasoning, the authors also argue that firms with little international experience prefer acquisitions in culturally distant countries. Their empirical results
In contrast, inexperienced firms use greenfield investments to mirror organizational structures from the home country and to staff the subsidiary with personnel fitting their organizational culture especially in culturally distant locations (Hennart and Park, 1993; Larimo, 2003). Hence, general international experience as well as host country experience is less useful when establishing a greenfield in culturally distant locations, as common organizational practices and cultures already bridge cultural gaps between parent firms and foreign subsidiaries (Harzing, 2002; Hennart, 1991).

Firms that repeatedly engaged in acquisitions (greenfield investments) have established organizational routines and systems, which they are likely to exploit in subsequent acquisitions (greenfield investments) (Drogendijk and Slangen, 2006; Vermeulen and Barkema, 2001). Although culturally distant acquisitions are to some extent idiosyncratic (Ellis et al., 2011), research shows that firms particularly benefit from previous acquisition experience, as some learned skills can be transferred from one event to another – even across culturally distant settings (Barkema and Schijven, 2008). Prior acquisition experience provides a firm with the ability to better manage the integration of acquired firms across different cultures (Vermeulen and Barkema, 2001) avoiding clashes resulting from different organizational cultures (Cheng, 2006) and facilitating effective communication between acquirer and target firm as well as with stakeholders (Dikova et al., 2010). Experience becomes even more valuable with increasing cultural distance, as experienced firms are better able to tailor systems and processes specifically to different cultural environments acknowledging that the automatic adoption of routines developed through prior acquisitions might be problematic in dissimilar settings (Ellis et al., 2011; Finkelstein and Halebian, 2002). In sum, we hypothesize:

**Hypothesis 3b.** The propensity of parent firms with abundant experience-based resources to opt for an acquisition increases with higher cultural distance.
4 Methods

4.1 Literature Search

Consistent with prior meta-analyses (e.g., Schlaegel and Koenig, 2014; Zhao et al., 2004), we followed several steps to identify published and unpublished studies relevant for our analysis. First, we conducted a search in the EBSCO Host database using various key words (e.g., establishment mode, market entry, acquisition, greenfield, technological resources, marketing resources, international experience, host country experience, establishment mode experience) including variations thereof. Our literature search covered the time span from 1980 to 2015. We chose this interval as the comprehensive literature review by Slargent and Hennart (2007) identified the study by Wilson (1980) as the inception of empirical establishment mode choice research. Second, we conducted a manual search by searching reference lists from previous reviews in the field (e.g., Dikova and Brouchers, 2009; Slargent and Hennart, 2007) for relevant studies. Third, we conducted issue-by-issue searches in international management (e.g., International Business Review, Journal of International Business Studies, Journal of World Business, Management International Review) and general management (e.g., Academy of Management Journal, British Journal of Management, Journal of Business Research, Journal of Management, Journal of Management Studies, Strategic Management Journal) journals, which are particularly susceptible to articles on general entry mode and establishment mode choice (Canabal and White, 2008). Searching these journals is consistent with (and even more comprehensive than) the journals searched in other entry mode choice meta-analyses (e.g., Tihanyi et al., 2005; Zhao et al., 2004). Fourth, we searched the proceedings of major (international business) conferences (e.g., Academy of International Business Conference (AIB), European International Business Academy Conference (EIBA)) to obtain unpublished work. Finally, we supplemented this search by an unstructured search (Cooper, 1998) using Google and Google Scholar to identify further (un)published studies, books, and book chapters.

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6 As the inclusion of studies in the meta-analysis depends on the measurement of relevant variables (consistent with specific inclusion criteria) and not on their label, we also searched for key words such as “entry mode” because some prior studies position their paper in the entry mode literature, but empirically investigate the establishment mode choice between acquisitions and greenfield investments (e.g., Andersson and Svensson, 1994; Mudambi and Mudambi, 2002; Shaver, 1998).
The literature search yielded 95 potentially eligible studies. Hereof, 62 studies examine establishment mode choice as dependent variable. Another 18 studies examine the choice between greenfield investment, acquisition, and joint venture. Consistent with our definition of establishment mode choice, these studies are relevant for our study when they provide separate empirical evidence for the choice between greenfield investment and acquisition. Lastly, 15 studies include the choice between greenfield investment and acquisition as predictor variable.

4.2 Inclusion Criteria and Coding

Next, we selected the specific studies eligible for inclusion in our meta-analysis based on the following criteria. First, studies had to provide information on firm’s dichotomous choice between greenfield investment and acquisition in a foreign market. Second, studies had to provide information regarding the relationship between the focal constructs of our analysis. Third, studies had to report sample sizes and outcome statistics (e.g., mean values and bivariate correlations among the focal variables, t or F statistics) necessary to perform meta-analyses (Hunter and Schmidt, 1990). Fourth, to ensure independence between effect sizes, we only included the study with the larger sample size when studies with overlapping or identical samples provided the same variables relevant for our analysis (Geyskens et al., 2006; Schlaegel and Koenig, 2014).

Following these inclusion criteria, the number of studies eligible for analyses was reduced to 31 for the following reasons. Applying the first criterion, we excluded the studies by Yip (1982), Chatterjee (1990), Dellestrand and Kappen (2011), and Vermeulen and Barkema (2001) as their samples include only domestic or mixed international and domestic market entries. The studies by Wilson (1980) and Ionascu et al. (2004) were excluded as the dependent variable is not coded dichotomously. Applying the second inclusion criterion, our sample size was further reduced by twelve studies not reporting a relationship between at least one of our focal constructs and firm’s establishment mode choice (e.g., Anand and Delios, 2002; Nitsch et al., 1996). As not all studies report the necessary statistics (third inclusion criterion) (e.g., Cheng, 2006; Cui and Jiang, 2009), the number of studies was further reduced by 30
studies. To maintain independence between effect sizes (Combs et al., 2011a) (fourth inclusion criterion), we excluded 16 studies with overlapping samples (e.g., Chen, 2008; Slangen, 2013). Table B-1 displays the 31 studies analyzing 13,559 establishment mode choices included in our meta-analysis.

A common challenge in meta-analyses concerns how to deal with identical measures for differently labeled constructs and with different measures for constructs labeled identically across studies (Lipsey and Wilson, 2001). To cope with this challenge, it is important that the constructs of interest are appropriately defined in the meta-analysis and that the measurement of the constructs as used in the primary studies tap into this definition (Lipsey and Wilson, 2001). Hence, we defined the constructs of interest consistent with prior literature. We then used ten randomly selected studies in order to develop a standard procedure of how to code effect sizes (Tihanyi et al., 2005). Two raters examined each of the remaining 21 articles independently and coded effect sizes following the standard procedure. We obtained an interrater-reliability of Cohen’s Kappa = 0.83 suggesting sufficient reliability (Cohen, 1960; Orwin and Vevea, 2009). Remaining inconsistencies were resolved among the raters through discussion.

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7 We thankfully acknowledge that we were able to include some articles originally not reporting the necessary statistics as the respective authors provided us with the necessary information upon request (e.g., Benito et al., 2005; Georgopoulos and Preusse, 2009).
### Table B – 1: Descriptive Statistics, Correlations and Mean Values

<table>
<thead>
<tr>
<th>Study</th>
<th>Source</th>
<th>Sample Size</th>
<th>Effect Sizes on Establishment Mode</th>
<th>Mean Value</th>
<th>Supplemental Effect Sizes on Establishment Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Know</td>
<td>Exp</td>
<td>CD</td>
</tr>
<tr>
<td>*Andersson and Svensson (1994)</td>
<td>SJE</td>
<td>925</td>
<td>-0.051</td>
<td>0.235</td>
<td>2.270</td>
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<tr>
<td>Barkema and Vermeulen (1998)</td>
<td>AMJ</td>
<td>829</td>
<td>0.134</td>
<td></td>
<td>2.270</td>
</tr>
<tr>
<td>**Benito et al. (2005)</td>
<td>SJM</td>
<td>145</td>
<td>-0.014</td>
<td></td>
<td>4.030</td>
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<tr>
<td>Boelis et al. (2014)</td>
<td>EIBA</td>
<td>1085</td>
<td>0.229</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brouthers and Dikova (2010)</td>
<td>JMS</td>
<td>154</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dadzie and Owusu (2015)</td>
<td>IJOEM</td>
<td>75</td>
<td>0.199</td>
<td></td>
<td>2.370</td>
</tr>
<tr>
<td>Datta (2014)</td>
<td>AIB</td>
<td>396</td>
<td>-0.110</td>
<td>0.031</td>
<td>1.390</td>
</tr>
<tr>
<td>Dikova and Van Wittelloostuijn (2007)</td>
<td>JBS</td>
<td>160</td>
<td>-0.083</td>
<td>0.016</td>
<td></td>
</tr>
<tr>
<td>Dow and Larimo (2011)</td>
<td>MIR</td>
<td>1473</td>
<td>0.090</td>
<td></td>
<td>2.86</td>
</tr>
<tr>
<td>Droegendant and Slangen (2006)</td>
<td>IBR</td>
<td>246</td>
<td>0.084</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eiche et al. (2012)</td>
<td>JBE</td>
<td>95</td>
<td>-0.030</td>
<td></td>
<td></td>
</tr>
<tr>
<td>**Georgopoulos and Preusse (2009)</td>
<td>IBR</td>
<td>179</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gorynia et al. (2014)</td>
<td>EIBA</td>
<td>100</td>
<td>-0.122</td>
<td></td>
<td>2.620</td>
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<tr>
<td>Harzing (2002)</td>
<td>SMJ</td>
<td>287</td>
<td>-0.213</td>
<td>-0.172</td>
<td>1.640</td>
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<tr>
<td>**Hollender et al. (2014)</td>
<td>EIBA</td>
<td>90</td>
<td>-0.198</td>
<td>0.053</td>
<td>1.468</td>
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<tr>
<td>**Hutschenreuter et al. (2011)</td>
<td>JMS</td>
<td>492</td>
<td></td>
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<tr>
<td>**Laufs et al. (forthcoming)</td>
<td>IMR</td>
<td>47</td>
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<td>0.159</td>
<td>1.785</td>
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<tr>
<td>**Mata and Portugal (2000)</td>
<td>SMJ</td>
<td>1033</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Meyer et al. (2014)</td>
<td>JBS</td>
<td>298</td>
<td>-0.018</td>
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<td>0.333</td>
</tr>
<tr>
<td>**Padmanabhan and Cho (1996)</td>
<td>MIR</td>
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<td>-0.025</td>
<td>-0.050</td>
</tr>
<tr>
<td>Rienda et al. (2013)</td>
<td>JAPE</td>
<td>117</td>
<td>-0.020</td>
<td></td>
<td>-0.040</td>
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<tr>
<td>*Shaver (1998)</td>
<td>MNSC</td>
<td>213</td>
<td>0.199</td>
<td></td>
<td>-0.173</td>
</tr>
<tr>
<td>*Shen and Puig (2014)</td>
<td>EIBA</td>
<td>257</td>
<td></td>
<td></td>
<td>0.287</td>
</tr>
<tr>
<td>Slangen and Hennart (2008a)</td>
<td>JMS</td>
<td>191</td>
<td>0.110</td>
<td></td>
<td>2.13</td>
</tr>
<tr>
<td>**Tan (2009)</td>
<td>JBS</td>
<td>278</td>
<td>0.030</td>
<td></td>
<td>-0.010</td>
</tr>
<tr>
<td>*Tsai and Cheng (2004)</td>
<td>ICOMA</td>
<td>188</td>
<td>-0.209</td>
<td>0.242</td>
<td>1.649</td>
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<tr>
<td>**Tsang and Yip (2007)</td>
<td>AMJ</td>
<td>1373</td>
<td>-0.045</td>
<td></td>
<td>1.920</td>
</tr>
<tr>
<td>Verbeke and Hilleman (2014)</td>
<td>EIBA</td>
<td>923</td>
<td>-0.056</td>
<td>0.310</td>
<td>2.690</td>
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<td>Vidal-Suárez and López-Duarte (2013)</td>
<td>IJCCM</td>
<td>383</td>
<td>0.088</td>
<td>0.966</td>
<td>0.118</td>
</tr>
<tr>
<td>*Wu et al. (2012)</td>
<td>CIJ</td>
<td>243</td>
<td>-0.334</td>
<td>0.030</td>
<td>49.470</td>
</tr>
<tr>
<td>**Xie (2014)</td>
<td>IBR</td>
<td>445</td>
<td>0.020</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Acquisition=1, Greenfield=0;

Studies marked with an * position themselves in the entry mode choice literature (as indicated by the study’s title) but include the choice between greenfield and acquisition as dependent variable; Studies marked with ** include the choice between greenfield and acquisition as independent variable or control variable;


Know=Knowledge-based resources, Exp=Experience-based resources;

CD=Cultural distance;

Size=Parent firm’s size, Profit=Parent firm’s profitability
4.3 Measurement

Establishment mode choice is captured as a binary variable taking the value of “1” for acquisitions and “0” for greenfield investments. In case the respective variable was reversely coded (i.e., “1” for greenfield investments and “0” for acquisitions) in the primary studies, we inverted the correlation’s sign to appropriately reflect the effect’s direction (Duval and Tweedie, 2000b; Wanous et al., 1992).

We measure knowledge-based resources along the dimensions of technological and marketing resources. For technological resources, we employ measures capturing firm’s R&D expenses in reference to total sales (e.g., Harzing, 2002) and the ratio of advertising expenses or marketing costs to revenues to depict marketing resources (e.g., Tan, 2009).

The operationalization of experience-based resources comprises general international experience, host country experience, and establishment mode experience (i.e., acquisition experience and greenfield experience). We followed established recommendations in the literature (e.g., Dikova and Brouthers, 2009; Slangen and Hennart, 2007) to measure these constructs. For general international experience, we primarily include studies that measure this variable by the (log) number of countries a parent firm operated in prior to the focal foreign investment (e.g., Slangen and Hennart, 2008a), the overall number of parent firm’s foreign subsidiaries prior to the focal investment (e.g., Xie, 2014), or the length of parent firm’s prior international activity (e.g., Padmanabhan and Cho, 1996). To measure host country experience, we mainly use measures such as the number of subsidiaries a firm had in a specific country prior to the focal entry (e.g., Boellis et al., 2014). Moreover, we include measures drawing on the number of years a firm has operated in a specific country (Padmanabhan and Cho, 1996) or distinguishing whether or not the parent firm had been active in the host country before the focal market entry (e.g., Andersson and Svensson, 1994) to capture firm’s host country experience. Establishment mode experience entails acquisition and greenfield experience. To account for establishment mode experience, sample studies base their measures on the number of prior acquisitions/greenfield investments (e.g.,

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As the primary studies used several different measures to depict general international and host country experience, we performed sub-group analysis to assess whether different measurement scales differently influence the relationship between the respective experience-based resources and firm’s establishment mode choice. We find no significant differences between the effects of studies utilizing different measures for general international experience ($Q_h = 5.73; p > 0.10$) as well as host country experience ($Q_h = 0.62; p > 0.10$) lending support to the robustness of our results.
Dikova and van Witteloostuijn, 2007) or on Likert scales tapping how much experience the investing firm had with foreign acquisitions/greenfield investments (e.g., Drogendijk and Slangen, 2006).

Kogut and Singh (1988) introduced a cultural distance measure based on Hofstede’s (1980) four cultural dimensions to capture the difference between home and host country’s culture. This measure is widely used in the literature (Dow and Larimo, 2011). Consistently, we only consider those studies for our analysis that apply this measure (e.g., Vidal-Suárez and López-Duarte, 2013).

Extant establishment mode literature frequently controls for parent firm’s size and profitability when investigating the choice between greenfield investment and acquisition (Dikova and Brouthers, 2015). Thereby, researchers account for the general notion that the possession of a larger resource base impacts a firm’s establishment mode choice (e.g., Barkema and Vermeulen, 1998; Dow and Larimo, 2011). In a supplemental analysis, we therefore examine the direct effects of firm size and profitability on a firm’s establishment mode choice. To measure (absolute) parent firm’s size, we include studies that draw on sales, assets, and/or number of employees (e.g., Datta, 2014). To assess parent firm’s profitability, we employ measures tapping a firm’s return on equity (e.g., Barkema and Vermeulen, 1998) or return on assets (e.g., Meyer et al., 2014).

4.4 Analytical Procedure

Following best practice recommendations for meta-analyses by Geyskens et al. (2009), we first integrated the findings of the primary empirical studies into a common parameter (Marin-Martínez and Sánchez-Meca, 2010). To this end, we used the correlation coefficients as effect-size indexes because such scale-free measures demonstrate associations between variables and are readily interpretable (Card, 2012). Consistent with Hedges and Olkin (1985), we applied Fisher’s Z-transformation to correct for skewness in the effect size distribution. As recommended by Hunter and Schmidt (1990) as well as Geyskens et al. (2009), we corrected effect sizes for sampling error by weighting the individual effects with the inverse of their variance. However, we did not correct for measurement error either because there were no reliability measures available due to the predominant use of single-item measures for the constructs analyzed in our study or because primary studies did not report such measures (Carson et al., 1993; Rodgers and Hunter, 1991). Moreover, our analysis does not comprise any measures that resulted
from dichotomizing originally continuous variables. All analyses were conducted using STATA 12.1. We supplemented this software with meta-analysis macros by Wilson (2013) to prevent STATA from interpreting the weights assigned to the effect sizes as representing multiple effect sizes instead of single effect sizes (Lipsey and Wilson, 2001).

We used the Hedges and Olkin (1985) meta-analysis (HOMA) procedure to estimate the meta-analytic mean-correlations and the corresponding confidence intervals. As the effect sizes of large sample studies are more precise than those of small sample studies (Hedges and Vevea, 1998), we applied inverse variance weights to the correlations to estimate the mean effect size appropriately. We assume that the studies included in our meta-analysis show random differences due to the fact that they were conducted in different settings (e.g., in terms of time and geographic region). Therefore, these studies lack a common population effect and it is realistic to assume that the population effect sizes are not fixed, but vary randomly across studies (Field, 2001; Geyskens et al., 2009; Hedges and Vevea, 1998). Hence, we applied a random-effects model to analyze the focal associations assuming that the effect sizes in the underlying studies are “sampled from a universe of possible effects” (Field, 2001, p. 162). Consequently, we employed a variance term consisting of a subject-level sampling error as well as a between-study variance component for the weighting of primary effect sizes (Hedges and Vevea, 1998; Lipsey and Wilson, 2001). We examined the homogeneity in the effect size distribution based on the Q-statistic, the $I^2$-statistic, as well as the expected and the residual variance (Hedges and Olkin, 1985; Huedo-Medina et al., 2006; Hunter and Schmidt, 2004). The Q- and $I^2$-values as well as the amount of residual variance further support our choice of a random-effects model.

To account for moderation effects, we employed meta-analytic regression analysis (MARA, (Lipsey and Wilson, 2001)). To this end, we conducted weighted least squares regression analysis with one covariate using inverse variance weights to determine whether our moderator variable (i.e., cultural distance) explains heterogeneity in the effect size distribution (Hedges and Olkin, 1985). As we assume a moderator to cause differences among effect sizes, and following recommendations in the literature (Geyskens et al., 2009), we opted for a more conservative mixed-effects model, which attributes effect size heterogeneity to between-study variability, subject-level sampling error, as well as to a random component (Lipsey and Wilson, 2001). To determine the overall fit of the regression model, the $Q_M$
index illustrates the portion of total variability explained by the regression model with a significant value indicating that the regression coefficient $\beta$ explains variability in the effect size. In turn, a significant $Q_E$, representing the residual of total variability unexplained by the regression, suggests that the moderator variable does not explain sufficient variability (Lipsey and Wilson, 2001). For the moderator analysis we utilized the sample mean value of cultural distance and, thus, only incorporated studies that measure cultural distance with the index from Kogut and Singh (1988) to ensure a consistent interpretation of the level of cultural distance under which the market entries analyzed in the respective study were conducted. Similar to the correlation coefficient in a primary study aggregating the sample firms’ individual relation between resources and the establishment mode choice, the sample mean of cultural distance aggregates the extent of cultural differences between home and host country present in the specific sample. The mean value of cultural distance, hence, serves as a study characteristic to explain differences in the mean effect size of resources on firm’s establishment mode choice across the studies included in the meta-analysis. Using the mean value for metric moderator variables in meta-regression is consistent with prior meta-analyses (e.g., Kooij et al., 2010).

5 Results

5.1 Assessment of Outliers and Publication Bias

Before estimating the weighted mean effects for our focal relationships, we performed outlier analysis and checked for publication bias. Following Viechtbauer and Cheung (2010), we computed studentized deleted residuals (i.e., the standardized difference between the observed primary effect size of a particular study and the estimated average effect size excluding the particular study) to identify outlying effect sizes. If the effect size of a particular study deviates strongly from the mean effect when excluding the particular study, the study needs to be excluded from further analysis. We kept effect sizes with residuals within the bounds of $\pm 1.96$ in our analysis and removed up to two studies from each effect size distribution residing outside this interval.

Publication bias presents a potential threat to meta-analyses (Kepes et al., 2012). Such bias exists when researchers, reviewers, and/or editors prefer larger, significant effects to smaller and insignificant effects for publication (Borenstein et al., 2009; Stanley, 2008). As a first step to check for publication bias, we
compiled funnel plots depicting the effect size distribution of each resource type. Asymmetric funnel plots give a first indication of publication bias in the data. In contrast, the plot ideally resembles an inverted funnel in the absence of publication bias (Sterne and Harbord, 2004). However, it is important to note that also between-study heterogeneity, which is particularly present in our research context, might alter the effect size distribution causing additional scatter in the plot (Sterne et al., 2011). Additionally, when performing a meta-analysis with a relatively small number of studies, funnel plots may display an asymmetrical shape merely due to chance (Terrin et al., 2005). As depicted in Figures B – 1 and B – 2, the funnel plots for knowledge-based and experience-based resources seemingly lack some studies on their right-hand side to be fully symmetric.

**Figure B – 1: Funnel Plot – Knowledge-Based Resources**
Figure B – 2: Funnel Plot – Experience-Based Resources

Given the above mentioned limitations and as the interpretation of funnel plots is rather subjective (Sterne et al., 2005), we additionally used statistical tests to investigate a potential presence of publication bias. To this end, we applied the trim and fill procedure (Duval and Tweedie, 2000a; b) and tests recommended by Egger et al. (1997) as well as Begg and Mazumdar (1994). The trim and fill procedure assesses the extent to which the effect size distribution needs to be expanded by additional studies to achieve funnel plot symmetry (Duval, 2005). This procedure trims extreme effect sizes from the skewed side of the effect size distribution and imputes effect sizes on the opposite side until symmetry is achieved. Then, trim and fill re-estimates the mean effect size and confidence interval based on the effect size distribution corrected for publication bias (Kepes et al., 2012). The Egger test assesses potential publication bias based on the intercept ($\beta_0$) of a regression model where the standardized effect size is regressed on its precision (i.e., the inverse of the standard error) (Egger et al., 1997). In the absence of publication bias, the regression line will go through the origin ($\beta_0 = 0$) (Sterne et al., 2005). The test by Begg and Mazumdar (1994) assesses the rank order correlation of the effect size and its standard error pointing to the presence of publication bias in case the inverse rank order correlation is significant. Consistent with the recommendations by Sterne et al. (2011), we only performed tests for
publication bias on distributions of at least ten samples, as the validity of results from smaller samples is often compromised by low statistical power and second-order sampling error (Borenstein et al., 2009). The Egger test shows a weakly significant (p ≤ 0.10) indication for bias in the data for knowledge-based resources as well in the data of one sub-category of experience-based resources (i.e., general international experience), in which the effect size distribution also needs to be imputed with six studies to achieve symmetry. However, the three tests indicate that, overall, publication bias is no major concern in our data (see Table B – 2).

5.2 Direct Effects

Table B – 2 depicts the direct effects of knowledge-based and experience-based resources on the choice between greenfield investment and acquisition. For knowledge-based resources, we find a significantly negative effect ($\bar{r}_z = -0.089, p ≤ 0.001$) indicating that firms with abundant knowledge-based resources are more likely to opt for a greenfield investment (as opposed to an acquisition) supporting Hypothesis 1. Further, the effect for technological resources is significantly negative ($\bar{r}_z = -0.137, p ≤ 0.001$) indicating that firms with greater technological resources are more likely to opt for a greenfield investment (as opposed to an acquisition). In contrast, the relation between marketing resources and firm’s establishment mode choice is insignificant ($\bar{r}_z = -0.029, p > 0.05$).

For experience-based resources, our analysis reveals a significant effect indicating that firms with an abundance of experience-based resources have a higher propensity of conducting acquisitions ($\bar{r}_z = 0.100, p ≤ 0.001$) (as opposed to a greenfield investment). This finding supports Hypothesis 2. The effects for the sub-categories host country experience ($\bar{r}_z = 0.173, p ≤ 0.001$) and acquisition experience ($\bar{r}_z = 0.227, p ≤ 0.001$) are both significant indicating a higher likelihood of an acquisition choice by firms with an abundance of these resources. In contrast, greenfield experience ($\bar{r}_z = -0.084, p > 0.05$) and general international experience ($\bar{r}_z = 0.004, p > 0.05$) display insignificant effects on firm’s choice between greenfield investment and acquisition.
The supplemental analysis depicted in Table B - 2 reveals that parent firm’s size shows no significant

effect on the choice between greenfield investment and acquisition ($\bar{f}_2 = 0.030, p > 0.05$). In contrast,

more profitable parent firms more likely establish a foreign subsidiary via a greenfield investment (as opposed to an acquisition) as indicated by the significantly negative effect on the establishment mode

choice ($\bar{f}_2 = -0.044, p \leq 0.05$).

The tests for homogeneity in the effect sizes of knowledge-based and experience-based resources show

for both resource types a significant Q-value, an $I^2$-statistic suggesting true heterogeneity between

studies, and remaining residual variance indicating that the effects depend on additional contextual

factors moderating the focal relationships.
Table B – 2: Effects on Establishment Mode

<table>
<thead>
<tr>
<th>Variable</th>
<th>K</th>
<th>n</th>
<th>( \hat{r} )</th>
<th>SE</th>
<th>( s^2 )</th>
<th>( n^2 )</th>
<th>Q</th>
<th>( I^2 )</th>
<th>( \text{Trim and Fill} )</th>
<th>Egger</th>
<th>B&amp;M</th>
<th>( p_{r &gt; 1} )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge-based resources</td>
<td>10</td>
<td>4,133</td>
<td>-0.089 ***</td>
<td>0.023</td>
<td>-0.134</td>
<td>-0.044</td>
<td>0.002</td>
<td>0.018</td>
<td>16.03 ↑</td>
<td>43.9</td>
<td></td>
<td>-1.825 ↑</td>
</tr>
<tr>
<td>Technological resources</td>
<td>10</td>
<td>4,098</td>
<td>-0.137 ***</td>
<td>0.027</td>
<td>-0.190</td>
<td>-0.084</td>
<td>0.002</td>
<td>0.030</td>
<td>21.30 *</td>
<td>57.7</td>
<td></td>
<td>-1.602</td>
</tr>
<tr>
<td>Marketing resources</td>
<td>4</td>
<td>1,549</td>
<td>-0.029</td>
<td>0.056</td>
<td>-0.140</td>
<td>-0.082</td>
<td>0.003</td>
<td>0.001</td>
<td>11.02 *</td>
<td>72.8</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Experience-based resources</td>
<td>23</td>
<td>10,779</td>
<td>0.100 ***</td>
<td>0.029</td>
<td>0.044</td>
<td>0.156</td>
<td>0.002</td>
<td>0.007</td>
<td>166.76 ***</td>
<td>86.8</td>
<td></td>
<td>-0.815</td>
</tr>
<tr>
<td>General international experience</td>
<td>16</td>
<td>5,255</td>
<td>0.004</td>
<td>0.024</td>
<td>-0.044</td>
<td>0.051</td>
<td>0.003</td>
<td>0.004</td>
<td>36.72 **</td>
<td>59.2</td>
<td></td>
<td>1.556</td>
</tr>
<tr>
<td>Host country experience</td>
<td>13</td>
<td>7,551</td>
<td>0.173 ***</td>
<td>0.032</td>
<td>0.111</td>
<td>0.235</td>
<td>0.002</td>
<td>0.009</td>
<td>75.76 ***</td>
<td>84.2</td>
<td></td>
<td>-0.249</td>
</tr>
<tr>
<td>Acquisition experience</td>
<td>4</td>
<td>543</td>
<td>0.227 ***</td>
<td>0.043</td>
<td>0.142</td>
<td>0.312</td>
<td>0.008</td>
<td>-0.006</td>
<td>1.380</td>
<td>0</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Greenfield experience</td>
<td>4</td>
<td>543</td>
<td>-0.084</td>
<td>0.058</td>
<td>-0.197</td>
<td>-0.029</td>
<td>0.007</td>
<td>-0.007</td>
<td>4.69</td>
<td>36.0</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Supplemental analysis

<p>| | | | | | | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent firm’s size</td>
<td>24</td>
<td>11,366</td>
<td>0.030</td>
<td>0.029</td>
<td>-0.028</td>
<td>0.087</td>
<td>0.002</td>
<td>0.016</td>
<td>194.70 ***</td>
<td>88.2</td>
<td></td>
<td>1.400</td>
<td></td>
</tr>
<tr>
<td>Parent firm’s profitability</td>
<td>5</td>
<td>2,691</td>
<td>-0.044 *</td>
<td>0.019</td>
<td>-0.082</td>
<td>-0.007</td>
<td>0.002</td>
<td>0.039</td>
<td>2.90</td>
<td>0</td>
<td>n.a.</td>
<td>n.a.</td>
<td></td>
</tr>
</tbody>
</table>

Acquisition=1, Greenfield investment=0; ↑ p ≤ 0.10; * p ≤ 0.05; ** p ≤ 0.01; *** p ≤ 0.001
5.3 Moderator Analysis

We analyzed how cultural distance moderates the effects of knowledge-based and experience-based resources on firm’s establishment mode choice. Table B – 3 displays the results.

<table>
<thead>
<tr>
<th>Resource type</th>
<th>$\beta$</th>
<th>SE</th>
<th>95% confidence interval</th>
<th>$Q_M$</th>
<th>$Q_E$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge-based resources</td>
<td>-0.004*</td>
<td>0.002</td>
<td>-0.007 -0.001</td>
<td>5.468*</td>
<td>2.072</td>
</tr>
<tr>
<td>Experience-based resources</td>
<td>0.096</td>
<td>0.085</td>
<td>-0.071 0.264</td>
<td>1.263</td>
<td>3.743</td>
</tr>
</tbody>
</table>

Acquisition=1, Greenfield=0; †$p \leq 0.10$; *$p \leq 0.05$; **$p \leq 0.01$; ***$p \leq 0.001$

Our findings reveal a significantly negative moderating effect of cultural distance on the relation between knowledge-based resources and firm’s establishment mode choice ($\beta = -0.004$, $Q_M = 5.468$, $p \leq 0.05$). Hence, firms with knowledge-based resource are even more likely to resort to greenfield investments when they enter culturally distant countries lending support for Hypothesis 3a. Analyzing the moderating effect of cultural distance on the relationship between experience-based resources and firm’s establishment mode choice reveals no significant effect ($\beta = 0.096$, $Q_M = 1.263$, $p > 0.05$). Hence, we find no empirical support for Hypothesis 3b.

6 Discussion

This paper sets out to develop a resource-based framework to explain firm’s establishment mode choice. The main argument is that firms either possess and exploit specific types of resources or seek access to new resources through their establishment mode choice. Consistent with our theoretical predictions, we find that knowledge-based resources enhance a firm’s propensity to opt for a greenfield investment, whereas experience-based resources more likely lead to the choice of an acquisition. These findings show that firms’ establishment mode choices depend on the type of resources they exploit or seek abroad. Consistent with the literature emphasizing the context-dependency of the RBV (e.g., Miller and Shamsie, 1996; Priem and Butler, 2001), we examine the moderating effect of cultural distance, as a

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* We complemented the moderator analysis (employing meta-regression techniques) with an additional sub-group analysis based on a median split of the Kogut and Singh (1988) measure for cultural distance leading to a distinction between high and low levels of the moderator. The results from this sub-group analysis are fully consistent with the findings from the meta-regression analysis lending further robustness to our results.
major source of information deficits, on the relationship between resources and a firm’s establishment mode choice. We find that parent firms with abundant knowledge-based resources have an even higher propensity to opt for a greenfield investment when cultural distance is high, while we find no empirical support for the moderating effect of cultural distance on the association between experience-based resources and a firm’s establishment mode choice.

Although we find support for the overall notion that knowledge-intensive firms prefer to enter foreign markets via greenfield investment (e.g., Andersson and Svensson, 1994; Padmanaban and Cho, 1995), when we look into within-category differences our results reveal that only technological resources significantly affect a firm’s preference for greenfield investments, while marketing resources display no significant effect. Firms possessing abundant technological resources exploit their competitive advantage in foreign markets by entering via greenfield investments, which allow (better than acquisitions) to transfer and protect proprietary technological resources across borders (Dikova and van Witteloostuijn, 2007; Tsai and Cheng, 2004). With regard to marketing resources, the rather low number of primary studies included in our analysis limits us in distinguishing between different forms of marketing know-how and skills. Such a distinction may be interesting in the future, as Capron and Hulland (1999) show that the transferability of marketing know-how and skills varies across different types of marketing resources (e.g., brands, sales channels). Hence, firms may use acquisitions as a foreign market entry even if they already possess an abundance of marketing resources in order to acquire complementary non-transferable resources abroad (Anand and Delios, 2002; Capron and Mitchell, 1998). Another potential research avenue might be to distinguish between different firm types. For example, family firms rely on highly idiosyncratic resources such as brand reputation worth protecting across countries through appropriate mode choices (Boellis et al., 2014).

We find that experience-based resources enhance a firm’s propensity to opt for an acquisition. Considering the sub-categories of experience-based resources, our results provide a more detailed understanding of the role of such resources for a firm’s establishment mode choice. The insignificant effect of general international experience reflects the current discussion in the field. Reviewing the literature, Dow and Larimo (2011) identify several studies that find general international experience to significantly increase the likelihood that a firm opts for an acquisition (e.g., Andersson and Svensson,
1994; Mudambi and Mudambi, 2002; Slangen and Hennart, 2008b). However, other studies find a significant positive influence of general international experience on a firm’s propensity to choose a greenfield investment (e.g., Brouthers and Brouthers, 2000; Padmanabhan and Cho, 1999) or find no significant effect at all (e.g., Larimo, 2003; Padmanabhan and Cho, 1995). Dow and Larimo (2011, p. 325) conclude that “the results to date have been almost evenly split in terms of the three possible results”. These inconclusive results indicate that general international experience supposedly lacks depth and that more detailed analysis is warranted to find out which components of general international experience more likely lead to an acquisition or greenfield investment and under which boundary conditions the respective mechanisms become more or less pronounced. Our findings further reveal that familiarity with a particular host country context enhances a firm’s propensity to engage in acquisitions. This result contradicts prior research suggesting that primarily inexperienced firms engage in acquisitions to obtain knowledge about the host country (Hennart and Park, 1993; Larimo, 2003) and requires a more detailed examination in the future. Our findings are consistent with studies pointing to a relation between acquisition experience and the likelihood of subsequent entry by acquisition (e.g., Dikova and van Witteloostuijn, 2007; Drogendijk and Slangen, 2006). However, the insignificant effect for greenfield experience reinforces the notion that international expansion through greenfield investments may lead to progressing simplicity, whereas acquisitions “may enrich the knowledge bases and break the rigidities of acquiring firms – which enhances the viability of their later ventures” (Vermeulen and Barkema, 2001, p. 458). Our findings additionally underline the importance to consider different mode experiences and their effect on subsequent mode choice in future research (Chang and Rosenzweig, 2001). In this regard, considering the quality of prior establishment mode experience might be relevant, as acquisitions often fail to meet performance expectations (DeLong and DeYoung, 2007). Further, accounting for the timing of prior experience is necessary (Chang and Rosenzweig, 2001), as experience-based learning may be contingent on how long ago experiences have been collected.

We also address previous calls to enrich the RBV with a contextual perspective (Barney et al., 2011; Priem and Butler, 2001), as the heterogeneity of firm contexts strongly affects the processes relating to resource acquisition and development (Barney et al., 2011; Combs et al., 2011b). In a response to such calls, we reflect on the boundary conditions of the relation between resources and the establishment
mode choice by considering the moderating impact of cultural distance. We find that firms possessing knowledge-based resources more likely opt for greenfield investments in culturally distant locations. Large cultural distances imply increased unfamiliarity for the investing firm and expected difficulties when transferring technological knowledge. Greenfield subsidiaries are the better option to protect and utilize parent’s proprietary technological know-how and skills (Chang and Rosenzweig, 2001; Hennart and Park, 1993), as the parent firm can employ established structures and processes from the outset and thus avoids the difficulties of retraining the existing, culturally- and organizationally embedded workforce (Brothers and Brothers, 2000). In acquisitions, firms with abundant knowledge-based resources are likely to experience greater difficulties when exploiting their knowledge abroad, because of cultural and organizational differences causing information deficits that hamper knowledge transfers (Bresman et al., 1999; Van Wijk et al., 2008). In this regard, our findings provide insights regarding the previously neglected combined effect of knowledge-based resources and cultural distance.

In contrast to our theorizing, greater cultural distance does not increase the preference of firms with abundant experience-based resources to opt for acquisitions abroad. A possible explanation might lie in the notion that the establishment mode choice strongly depends on the executives’ perceptions of cultural distance (Drogendijk and Slangen, 2006; Shenkar, 2001). In this regard, international experience serves as a distance-bridging factor reducing information deficits (Child et al., 2002; Dow and Larimo, 2011) making cultural differences less relevant for decision-makers. As primary studies predominantly use secondary sources (e.g., Hofstede’s cultural dimensions) to measure cultural distance, future research considering cultural differences as perceived by top managers may yield new insights. Moreover, the literature on cross-border acquisitions reinforces the notion that the realization of synergy potentials is especially challenging in culturally distant acquisitions increasing the risk of post-acquisition failure (Stahl and Voigt, 2008). Firms equipped with acquisition experience might therefore better anticipate post-acquisition challenges and, in turn, prefer greenfield investments when entering culturally different foreign markets. This notion is empirically supported by Slangen and Hennart (2008b). In line with their study, we encourage future research to take a more differentiated look into which specific types of experience are particularly relevant for firms’ establishment mode choices in culturally distant locations.
Beyond cultural distance, our analysis leaves plenty of room for future research to investigate other moderating variables on the individual-, firm-, industry, or country-level that cause information deficits for the investing firm and, hence, correspond to the theorizing developed in the present paper and in the broader RBV literature addressing the context-dependency of the RBV (e.g., Brush and Artz, 1999; Miller and Shamsie, 1996; Priem and Butler, 2001). For example, Slangen (2011) uses communication-based theory to suggest that differences in verbal communication between the parent firm and the subsidiary may be more relevant for the reduction of information deficits and, hence, for firm’s establishment mode choices than cultural distance alone. Similarly, Ghemawat (2001) considers administrative, geographic, and economic distance as important factors inducing information deficits for the investing firm and, hence, constituting promising factors for future scholarly inquiry. Estrin et al. (2009) theorize about the role of institutional and human resource distance in firm’s entry strategies preventing the flow of information and, hence, having the potential to cause information deficits for the investing firm.

We also encourage future establishment mode choice research to delve deeper into the impact of different types of resources on the choice between greenfield investment and acquisition. In an effort to consider the more general notion of prior research that a larger resource base affects a firm’s establishment mode choice, we considered the impact of firm’s size and profitability (which both attract particular attention as control variables in extant studies) on the establishment mode choice in a supplemental analysis. The results from this analysis reveal an insignificant effect of firm’s size on the establishment mode choice. This finding reflects the mixed results (see for a brief overview Demirbag et al., 2008) and the undifferentiated use of firm size as a proxy for a firm’s resource availability (e.g., Rienda et al., 2013) in extant establishment mode choice literature. While some authors link firm size to the availability of financial resources (e.g., Shaver, 1998), others argue that larger firms have greater managerial resources (e.g., Kogut and Singh, 1988) or organizational skills (e.g., Andersson and Svensson, 1994). A potential idea to push the discussion forward might be to follow up on Lu and Beamish’s (2006) “size-based resources” that encompass financial resources as well as reputation and provide a more differentiated view on size-related resources. With regard to the former dimension, our analysis shows that firm’s profitability (which represents one form of financial resources) significantly
affects the establishment mode choice in that greenfield investments become more likely when a firm’s profitability is higher. Although financial resources are not necessarily rare in themselves (Hart, 1995), more profitable firms may be more likely to possess more unique heterogeneous resources. Thus, the findings from our supplemental analysis may be a starting point for future research into a more differentiated understanding of the impact of a firm’s size and financial resources on the establishment mode choice.

7 Limitations and Concluding Remarks

In addition to the general limitations pertaining to meta-analysis as a methodology (for details see e.g., Hunter and Schmidt, 1990; Lipsey and Wilson, 2001), there are specific limitations related to the current paper. First, although we are able to present a solid number of studies included in most of the aggregated effect sizes, the number of studies is limited in some sub-categories of resource types (e.g., marketing resources, acquisition experience). Hence, we encourage future research to delve deeper into different types of firm resources and study their role in firms’ establishment mode choices.

Second, the constructs in our analysis are captured by different measurements, which may distort mean effect sizes. To mitigate this issue, we carefully coded the effect sizes extracted from primary studies, assuring that the measurements of the variables are consistent with our focal constructs by drawing on prior literature to define these constructs (Lipsey and Wilson, 2001). As indicated by an appropriate interrater reliability, the variables relevant for our analysis can be clearly matched to the focal constructs. Moreover, we abstracted from the individual measurement of focal variables and used standardized effect sizes (i.e., correlation coefficients) facilitating a consistent interpretation of findings across studies (Lipsey and Wilson, 2001). Finally, we performed sub-group analysis for the three resource categories to assess how the different measures impact the consistency of our findings.

Third, most primary studies in our sample pool all establishment mode choices into one sample independent of whether those choices were full or partial greenfields/acquisitions. This approach implicitly assumes that (resource-based) motives of firm’s establishment mode choice are universal regardless of the stake taken in foreign firms (i.e., the ownership decision). However, some scholars find evidence that specific resources also influence firms’ ownership decisions. For example, R&D intensity,
advertising intensity, and host-market experience lead to full entries in the foreign market, but have no effect on partial entries (Chen, 2008). Further, R&D-intense firms (Chen and Hennart, 2004) as well as internationally experienced firms (Dikova and van Witteloostuijn, 2007; Ruiz-Moreno et al., 2007) prefer full over partial entries. However, prior studies also come to opposite results. Chen and Hennart (2004) neither find advertising intensity nor host-market experience to influence firm’s ownership decision. Ruiz-Moreno and colleagues (2007) report that R&D intensity does not affect firm’s decision between full and partial ownership. Hence, the question how the establishment mode choice and the ownership decision are related is an ongoing debate and it is important to view our findings in light of this discussion.

Fourth, to be inclusive, we aggregate greenfield experience and acquisition experience in the overall effect of experience-based resources and in the interaction effect between experience-based resources and cultural distance to predict an increased use of acquisitions. Even though we acknowledge the opposite influences of greenfield and acquisition experience in the hypotheses development, this empirical approach is counter to Capron and Mitchell’s (2010) argumentation that different entry modes require different skills. To verify whether this procedure affects our findings, we conducted a robustness check by re-analyzing the overall effect of experience-based resources and the interactive effect on a firm’s establishment mode choice without including greenfield experience. The direct effect of experience-based resources on firm’s establishment mode choice remains significant ($\tilde{\tau}_e = 0.109, p \leq 0.001$), while the interactive effect remains insignificant ($\tilde{\beta} = 0.094, Q_{st} = 1.211, p > 0.05$). Thus, our results are not affected by the empirical aggregation of both types of establishment mode experience. Nonetheless, we encourage future primary research to delve deeper into the different skills and knowledge that firms obtain from employing different types of entry modes.

Fifth, we argue for the impact of two types of non-imitable resources (i.e., knowledge-based and experience-based resources) on the establishment mode choice and that these relationships are altered by cultural distance. However, there might be other types of non-imitable resources (e.g., human capital resources) and other contextual factors exposing the investor to information deficits (e.g., economic distance or institutional distance) which are worth studying in the future (cf. Table 4 and Appendix 1 in Dikova and Brouthers’ (2015) literature review). However, we also consider it advantageous that the
underlying theoretical mechanisms in terms of resource exploitation and seeking and information deficits are relevant for other factors beyond those included in our research model, as this emphasizes a broader theoretical relevance. Therefore, we encourage future research to investigate the relevance of other types of resources and context factors for a firm’s establishment mode choice.

Sixth, some of the effect sizes (particularly concerning the moderating effect of cultural distance on the knowledge-based resources – establishment mode choice relationship) are rather small. In meta-analysis, however, in particular moderator effects are hard to detect (Aguinis et al., 2011; Dalton and Dalton, 2008). Chaplin (1991) and Stone (1988) argue that even small moderator effects are meaningful as long as they are grounded in theory.

To conclude in more general terms, our findings demonstrate the centrality of the RBV in the establishment mode choice literature and beyond. The broader entry mode literature has been traditionally dominated by internalization and transaction-cost perspectives, both concerned with the minimization of transaction costs and the conditions underlying market failure that determine the most efficient (cost-minimizing) way of foreign-market entry (Buckley and Casson, 1976; Williamson, 1975). The RBV-based framework developed in the present paper enriches these theoretical views by shifting the focus from transfer-costs to value aspects of resource-management (Madhok, 1997). The focus on value rather than transaction costs is important due to firms’ resource heterogeneity and the resulting different strategic decisions (e.g., the establishment mode choice). Here, one of the most significant contributions of the RBV is the centrality of the concept ‘firm-specific advantage’. Thus, important strategic decisions such as foreign market entries are not only ‘pushed’ by firm-specific advantages but also ‘pulled’ by resources vested in foreign firms that may help firms develop new or advance extant advantages (Shan and Song, 1997). The findings from our meta-analysis lend strong support to the theoretical predictions based on the RBV and, hence, point at the usefulness of the RBV in another important strategy area (i.e., firm’s foreign market entry mode choice).

Finally, our work ‘links-in’ an ongoing debate regarding the context-dependency of the postulates of the RBV. The examination of contextual factors helps establishing the boundary conditions of existing theory (Whetten, 1989). Hence, to learn more about the factors under which the predictions of a theory become more or less pronounced, it is imperative to continue delving deeper into the context of the
RBV. Studying the moderating influence of cultural distance and tying the construct with the concept of information deficits is a first step in this direction. Our study may inform future literature to continue reflecting on the boundary conditions of the RBV by theorizing about other factors and different underlying theoretical mechanisms in order to further strengthen RBV’s position as a core theory in strategy research and beyond.
C Study 2: Staffing MNCs’ Foreign Subsidiaries: The Joint Effect of Verbal Communication Barriers and International Experience

1 Introduction

Multinational corporations (MNCs) operating a subsidiary abroad are confronted with the question how to staff the CEO position in a foreign subsidiary. The staffing decision is critically important as it determines the degree to which the MNC is able to overcome differences between headquarters (HQ) and subsidiary (Boyacigiller, 1990; Colakoglu and Caligiuri, 2008; Harzing, 1997). The dissimilarities between HQ and subsidiary, which primarily emerge from cultural or institutional differences between the home and host country (Gaur et al., 2007; Gong, 2003), exacerbate subsidiary control for the MNC and impede knowledge exchange between the MNC and the subsidiary (Kostova and Zaheer, 1999; Xu and Shenkar, 2002) and, hence, can seriously hamper the MNC’s successful organizational development (Belderboes and Heijltjes, 2005; Collings and Scullion, 2006).

A vast body of extant literature focuses on expatriates – parent country nationals (PCNs) receiving an assignment to spend a significant period of time in the host country (Suutari and Brewster, 2001) – and their role as important ‘bridge persons’ for the MNC to overcome the challenges arising from the cultural or institutional dissimilarities between the home and host country (Gaur et al., 2007; Gong, 2003). More specific, studies show that expatriates span boundaries between HQ and subsidiary by leveraging their ties to the HQ (Gupta and Govindarajan, 2000), their socialization with HQ’s values (Colakoglu and Caligiuri, 2008) as well as their familiarity with HQ’s processes and practices (Fang et al., 2010). In this regard, expatriate staffing enables the MNC to enhance coordination and control over the subsidiary as well as to improve the knowledge transfer between HQ and subsidiary (Torbiörm, 1994).

The following two research deficits motivate us to develop a communication perspective to explain foreign subsidiary staffing in this paper. First, although we know from existing research outside the expatriate staffing domain that knowledge transfer and subsidiary coordination and control require effective (verbal) communication between HQ and subsidiary (Slangen, 2011), we are lacking theory explaining how verbal communication barriers influence the MNC’s decision to staff the subsidiary
CEO position with expatriates. In the present study, we understand verbal communication barriers as linguistic and geographic constraints that complicate, impede or block the transmission of verbal messages (Heun and Heun, 1975; Krone et al., 1987; Slangen, 2011). That is, language serves as a “primary ‘communication facility’” (Harris, 1981, p. 1) which is a basic requisite for managers to perform their daily activities (Charles and Marschan-Piekkari, 2002), while geographic conditions might rule out certain communication channels (Nijkamp et al., 1990). While cultural or institutional differences between home and host country might impede cross-country communication, verbal communication barriers might render communication, and thereby coordination and control and knowledge transfer, even impossible (Harzing and Pudelko, 2014; Krone et al., 1987).

Second, despite prior literature pointing to the influence of a MNC’s international experience (i.e., the knowledge MNCs gain by managing foreign operations without reference to a specific country (Padmanabhan and Cho, 1999; Slangen and Hennart, 2008b)) on firms’ coordination and control requirements as well as knowledge transfer capabilities (Erramilli, 1991; Kogut and Zander, 1993), knowledge about the joint effect of international experience and verbal communication barriers on expatriation is scarce. When firms expand internationally, they accumulate know-how that can be used in subsequent foreign investments and which serves as a bridging factor between distant home and host countries (Chang, 1995; Child et al., 2002). Through prior international experience MNCs can develop routines for managing foreign subsidiaries and ease the transfer of knowledge between MNC and subsidiary (Dow and Larimo, 2011; Kogut and Zander, 1993). Likewise, general international experience lowers a MNC’s uncertainty in the foreign market and makes it more confident in relying on local expertise, thereby lowering the MNC’s need for control (Erramilli, 1991; Shetty, 1979). Thus, it is essential to investigate how MNCs’ use of expatriates in the presence of verbal communication barriers changes with different levels of MNCs’ international experience.

The present study aims at analyzing the impact of verbal communication barriers on MNCs’ propensity to staff the CEO position of newly established foreign subsidiaries with PCN expatriates (opposed to host country nationals (HCNs) and third country nationals (TCNs)). Based on Slangen (2011), we distinguish between three types of verbal communication barriers. First, when home and host country employees do not master each other’s native language, and when these languages are different, the
resulting *native language barrier* exacerbates the decoding of messages and renders the exchange of information less efficient (Dow and Karunaratna, 2006; Slangen, 2011). Second, a *foreign language barrier* resulting from host country employees who do not master a third country language chosen for intra-MNC communication increases costs for exchanging information between HQ and foreign subsidiaries, as it might be necessary to modify or repeat messages in order to be understood (Slangen, 2011). Third, *geographic distance* impedes verbal communication due to long travel times, time zone differences and increased costs for transmitting messages electronically over distance (Harzing and Noorderhaven, 2006; Slangen, 2011; Zaheer, 2000). Moreover, we contextualize these relationships by including the MNC’s general international experience as a moderator changing firms’ strategic approaches regarding coordination and control and knowledge transfer in the course of their foreign subsidiary staffing.

We seek to offer two primary contributions to extant research. First, we contribute to theory by developing a communication-based perspective to explain expatriate staffing. While communication-based approaches explain other important strategic decisions in international business research (e.g., Slangen, 2011), we develop theory focusing on the existential meaning of communication for establishing knowledge exchange and coordination and control in the HQ-subsidiary relation and work out the bridging role expatriates play to overcome verbal communication barriers. More specific, we establish theoretically and find empirically that – depending on the exact kind of verbal communication barrier (i.e., native language barrier, foreign language barrier or geographic distance) – MNCs’ HQs make different expatriate staffing decisions to exert coordination and control over and transfer knowledge to foreign subsidiaries. Second, we theorize about and partly confirm the role of international experience as contextual factor influencing MNCs’ expatriate staffing decisions and thereby add a new component to the contingency perspective on expatriation established in prior literature (e.g., Belderbos and Heijltjes, 2005; Delios and Bjorkman, 2000). In so doing, we deepen our understanding of the complexity of a MNC’s staffing strategy (Beamish and Inkpen, 1998; Paik and Ando, 2011) and underline the importance of altering coordination and control requirements and knowledge transfer capabilities as criteria for expatriate staffing decisions.
2 Theoretical Background

2.1 Communication

Communication between HQ and subsidiary is central to establish coordination and control as well as knowledge transfer between these two entities (Gupta and Govindarajan, 2000; Marschan-Piekkari et al., 1999b). Incorporating coordination and control mechanisms requires intensive communication flows from the HQ to the subsidiary and vice-versa, as the implementation of such measures is regarded as a multilateral process consisting of frequent discussions (Ferner, 2000). Likewise, inter-unit communication serves as a facilitator of reciprocal knowledge transfer, particularly, when tacit knowledge is exchanged (Bresman et al., 1999). However, extant literature also points to the presence of communication barriers hampering coordination and control and impeding knowledge transfer. For example, based on the notion that communication between MNC units is culture-specific (Adler, 1986; Samovar et al., 1981), studies identify the cultural distance between home and host country as a major source of communication barriers (Lane et al., 2004; Reus and Lamont, 2009). Similarly, prior literature considers institutional distance to create communication barriers between countries (Braun and Warner, 2002; Hutchings, 2003; Li and Scullion, 2006).

In particular linguistic differences between home and host country, however, create barriers that render communication between HQ and foreign subsidiary impossible (Harzing and Pudelko, 2014). Therefore, extant literature also highlights the potential of linguistic differences and manager’s language skills as well as physical distance between HQ and subsidiary as important sources of verbal communication barriers (Harzing and Pudelko, 2014; Slangen, 2011; Zaheer and Hernandez, 2011).

Slangen (2011) conceptualizes three kinds of verbal communication barriers drawing on the language-related psychic distance stimuli introduced by Dow and Karunaratna (2006). First, the native language barrier encompasses the dissimilarities between the home and the host country language. In this regard, Luo and Shenkar (2006) point out that the language(s) spoken in the MNC determine(s) the circulation and interpretation of information which affects HQ’s ability to coordinate and control the MNC’s units as the use of multiple languages can cause misinterpretations and increase translation requirements. Schomaker and Zaheer (2014), in turn, point out that the similarity of languages spoken by HQ and
foreign subsidiary, respectively, facilitates communication to exchange knowledge. Second, a foreign language barrier exists when host country managers’ foreign language proficiency for communication with the HQ is insufficient (Cuypers et al., 2015). It has long been established that for knowledge exchange to unfold the exchanging parties need to have a “shared medium of communication” (Hedlund, 1999, p. 11) and that a shared language fosters communication and exchange (Kogut and Zander, 1992). Against this background, Harzing and Pudelko (2013) show that MNCs largely use English as a lingua franca to communicate with local employees in foreign subsidiaries, which reduces the language barrier if managers’ English language skills are sufficient. Third, the geographic distance between HQ and foreign subsidiary reduces the opportunity for direct communication due to long travel times and significant time differences, rendering knowledge exchange between geographically isolated groups more difficult (Birkinshaw, 2001; Harzing and Noorderhaven, 2006). Moreover, the often tacit nature of knowledge aggravates its exchange over distance, as it is especially difficult to transfer, even through IT (Li and Scullion, 2006; Zaheer and Hernandez, 2011). Further, Zaheer (2000) argues that effective coordination requires constant communication, quick responses, and relationship building, all of which is severely complicated when managers are located in different time zones.

2.2 Foreign Subsidiary Staffing

The staffing literature highlights expatriates’ role as communication conduits and emphasizes that expatriates perform an important bridging function between employees in the foreign subsidiary and HQ managers (Boyacigiller, 1990). Expatriates are supposed to facilitate coordination and control as well as knowledge transfer (Belderbos and Heijltjes, 2005; Delios and Bjorkman, 2000). In terms of the coordination and control function, PCN expatriates ensure that the foreign subsidiary acts in accordance with HQ’s goals as PCNs (compared to HCN and TCN) are more likely committed to the parent firm’s values and beliefs (Ando and Endo, 2013; Wang et al., 1998). Likewise, expatriates are familiar with the corporate culture and control systems which facilitates effective communication and coordination (Scullion, 1994) and, as a consequence, allows for the establishment of new procedures that improve the fit between HQ and subsidiary (Edström and Galbraith, 1977). While, Ando et al. (2008) emphasize the advantage of HQ managers’ and expatriates’ similar social and cultural backgrounds as prerequisites
for good communication, Harzing (2001a) finds that expatriates also serve a more informal control function by building up informal communication networks within the MNC.

Prior literature also underlines expatriate staffing’s beneficial role for knowledge transfer. Expatriates build a common frame of reference for HQ and the foreign subsidiary which facilitates the flow of knowledge between the two parties (Belderbos and Heijltjes, 2005). Moreover, Fang et al. (2010) argue for the moderating impact of expatriate staffing on the relationship between firm knowledge and foreign subsidiary performance, stating that expatriates increase the richness of formal and informal communication channels between HQ and subsidiary. In this regard, the literature stresses expatriates’ function as knowledge repositories who allow for transferring especially tacit knowledge between the parent firm and the subsidiary (Bonache et al., 2001).

While extant expatriate literature reflects on expatriates’ role in bridging barriers induced by cultural or institutional distance (e.g., Gaur et al., 2007; Gong, 2003), there is a dearth of literature that explicitly studies expatriation from a communication-based perspective. This comes as a surprise as already Tung (1984) attributes the higher likelihood of Japanese firms to use expatriate managers in foreign subsidiaries to high communication requirements and a potential “language barrier” (Tung, 1984, p. 140). Furthermore, the above stated literature frequently draws on communication-related benefits which expatriates offer to knowledge transfer and subsidiary control and coordination, however, without specifically developing and testing a communication-based framework explaining MNCs’ staffing decisions. The present paper seeks to overcome this void by developing and testing theory that explains the impact of native language barriers, foreign language barriers and geographic distance on MNC’s propensity to staff the subsidiary’s CEO position with a PCN expatriate (opposed to a HCN or TCN).

2.3 International Experience

Consistent with prior literature emphasizing the importance of contextual factors when explaining MNCs’ staffing decision (e.g., Ando and Paik, 2013; Harzing, 2001a), we consider international experience as a boundary condition of the focal relationships between the three communication barriers and the MNC’s staffing decision. International experience attracts frequent attention as a contextual factor explaining foreign subsidiary staffing (e.g., Ando and Kim, 2006; Ando and Paik, 2013; Ando et
al., 2008). For example, general international experience allows MNCs to reduce uncertainty and to mitigate legitimacy issues, as based on their experience MNCs develop capabilities to cope with dissimilar foreign contexts and institutional environments (Ando, 2011; Ando and Paik, 2013). Moreover, MNCs operating in diverse national settings are supposed to develop a large pool of internationally experienced PCNs who are better capable of performing knowledge recontextualization and transfer as well as control even in institutionally dissimilar environments (Ando and Paik, 2013).

Also Shen (2006) abstains from treating international experience as a factor directly influencing MNCs’ staffing decisions, but instead argues for its role as a “catalytic agent of change” (Shen, 2006, p. 310) – a perspective that is consistent with literature focusing on other strategic decisions (than the staffing decision) firms take when internationalizing. For example, Delios and Henisz (2003) study firms’ foreign market entry mode choice and argue that international experience mitigates the uncertainty arising from high levels of cultural distance between home and host country and from host country political risks. Referred to our research context, language deficiency as well as geographic distance are supposed to cause uncertainty which international experience might help to reduce (Gudykunst, 1995; Malhotra et al., 2009). We therefore investigate how a MNC’s general international experience moderates the relationship between verbal communication barriers and foreign subsidiary expatriate staffing.

3 Hypotheses

3.1 Communication Barriers and Staffing

The native language barrier increases the costs of verbal communication, as HQ and subsidiaries have to spend more effort until their respective employees understand oral or written messages (Barner-Rasmussen and Björkman, 2005; Luo and Shenkar, 2006). Especially for the effective and efficient exchange of knowledge, a “shared medium of communication” (Hedlund, 1999, p. 11) is important (Welch and Welch, 2008). If HQ and subsidiary managers do not speak the same language and if understanding and learning the counterpart’s language is difficult due to considerable differences in the respective languages, the HQ-subsidiary relation is affected by large native language barriers. Therefore, the additional effort necessary to transfer knowledge, such as translation of documents, delays the
exchange process and increases transfer costs (Buckley et al., 2005). In contrast, the HQ can lower the native language barrier when assigning a PCN proficient in the HQ’s home country language to the foreign subsidiary as both parties then share a common language (Harzing et al., 2011).

Language also affects foreign subsidiary control, as implementing control mechanisms requires intensive communication between HQ and foreign subsidiary (Björkman and Piekkari, 2009). PCNs facilitate communication between HQ and subsidiary and are regarded as an effective form of control mechanism especially in the initial stage after establishing a subsidiary (Edström and Galbraith, 1977; Harzing, 2001b; Paik and Sohn, 2004). In addition, by pointing to the difficulty of controlling internationally diversified firms, Luo and Shenkar (2006) acknowledge that measures such as information sharing or cross-functional coordination require extensive communication via a language that is shared by HQ and foreign subsidiary which is difficult when MNCs use multiple languages causing barriers and hampering communication, particularly when these languages are very different (Marschan-Piekkari et al., 1999b). Hence, PCNs sharing a language with HQ managers might be a more effective choice to control overseas subsidiaries. In sum, we argue:

*Hypothesis 1. The higher the native language barrier, the higher the propensity that the CEO position in a foreign subsidiary is staffed with a PCN.*

Foreign language barriers increase the costs of verbal communication due to host country managers’ low proficiency of the lingua franca which renders communication more difficult (Slangen, 2011; Welch and Welch, 2008). English can be seen as the lingua franca in the business environment (Brannen et al., 2014; Luo and Shenkar, 2006). With English as lingua franca, communication for knowledge exchange is facilitated, as “a shared medium of communication” (Hedlund, 1999, p. 11) is established. Moreover, relying on a shared (corporate) language increases the sense of commonality and strengthens informal connections, which foster the exchange of knowledge as well as informal information (Cuypers et al., 2015; Mäkelä et al., 2007; Zhang and Peltokorpi, 2016). When HCNs’ or TCNs’ English language proficiency, however, is low, PCNs represent a more effective means for knowledge exchange because knowledge of a common working language is important for knowledge transfer and for facilitating knowledge articulation (Buckley et al., 2005).
Communicating effectively in a common language also affects MNCs’ coordination and control function towards their foreign subsidiaries. Establishing a common corporate language is considered to support formal reporting, improve access to documents and creates a stronger sense of belonging to the company (Marschan-Piekkari et al., 1999a). If HCNs or TCNs are not able to properly speak a common corporate language, a subsidiary’s isolation and disconnectedness increases (Barner-Rasmussen and Björkman, 2007; Björkman and Piekkari, 2009), thus hampering subsidiary control and increasing monitoring costs. Therefore, sending a PCN to the foreign subsidiary maintains HQ’s desired level of control and limits the increase in monitoring costs. In sum, we hypothesize:

**Hypothesis 2. The higher the foreign language barrier, the higher the propensity that the CEO position in a foreign subsidiary is staffed with a PCN.**

The costs arising from verbal communication between HQ and foreign subsidiary for knowledge exchange as well as coordination and control is likely to be higher when geographic distance is high (Slangen, 2011). For exchanging (tacit) knowledge, direct communication between sender and receiver is necessary (Jasimuddin, 2007). With increasing geographic distance, however, costs for travelling from the home to the host country to establish direct face-to-face communication as well as costs for transmitting messages electronically increase (Arora and Fosfuri, 2000; Fladmoe-Lindquist and Jacque, 1995; Slangen, 2011; Welch and Welch, 2008). PCN expatriates already rank among the most expensive employees within a MNC (Scullion and Brewster, 2002). The HQ may intend to minimize costs for establishing direct communication by utilizing HCNs or TCNs to manage subsidiaries in countries located far away from the home country. Thereby, the HQ can also prevent the disadvantage of decreasing expatriate efficiency in very distant locations (Abdellatif et al., 2010). Additionally, Greater geographic distance between home and host country mostly implies differences in the time zones these two countries are located in (Zaheer and Hernandez, 2011). These time zone differences affect the communication opportunities for PCNs as well as those of TCNs and HCNs. However, new information technologies offer the opportunity to establish speedy communication for the purpose of knowledge transfer (Harzing and Noorderhaven, 2006). Deploying expensive expatriates to the subsidiary hence offers no particular value for HQ as they are also affected by time differences so that HCNs and TCNs are more likely used to engage in information exchange with HQ.
Long journey times and costs also affect the coordination and control of foreign subsidiaries. Therefore, in geographically distant locations, the use of physical movement of HQ managers to control subsidiaries becomes less likely. The compensation HQ would have to offer to potential expatriates is even higher when expatriates are sent to geographically distant locations, thus reducing HQ’s preference for PCNs as subsidiary CEOs (Harzing and Noorderhaven, 2006). Moreover, with increasing distance between home and host country it becomes more difficult to find PCNs who are willing to relocate to such distant locations (Abdellatif et al., 2010). Instead, HQ is more likely to use indirect control measures (e.g., budgets) to coordinate and control subsidiaries that can also be applied to subsidiaries lead by HCN or TCN CEOs (Harzing, 2001a). In sum, we hypothesize:

**Hypothesis 3. The higher the geographic distance barrier, the higher the propensity that the CEO position in a foreign subsidiary is staffed with a HCN or TCN.**

### 3.2 The Moderating Effect of International Experience

We argued that when the native language barrier is high, MNCs need to undertake additional effort to reach understanding between managers speaking different native languages which incurs higher costs and increases the challenges related to establishing effective communication between HQ and subsidiary. Therefore, MNCs are more likely to employ PCN expatriates as subsidiary CEOs in the presence of high native language barriers. MNCs, however, that possess prior international experience can considerably reduce challenges in the process of internationalization (Lu and Beamish, 2004). Internationally experienced firms have made extensive experience with managing complex organizational needs and establishing links between HQ and subsidiaries across borders (Schuler et al., 1993), which makes the exchange of knowledge easier and less expensive even if both parties’ proficiency of each other’s language is rather low. Additionally, as MNCs gain international experience, they implement planning systems and formalize strategies in the course of internationalization (Morgan and Katsikeas, 1997). Hence, they are more likely to also develop strategies for the use of languages within the MNE. Other MNCs, however, might have a more reactive approach by implementing language policies on an ad-hoc basis when dealing with increasing multilingualism due to the firm’s larger international spread (Welch and Welch, 2015). In either case, with the help of language policies,
MNCs determine the language(s) used in the company for internal communication and documentation as well as for communication with local stakeholders and establish measures such as language-sensitive recruitment or language training (Feely and Harzing, 2003; Peltokorpi, 2015b; Peltokorpi and Vaara, 2012). Thereby, internationally experienced MNCs alleviate complications resulting from differences in multiple native languages within the MNC, which in turn reduces HQ’s efforts required to establish communication with HCNs or TCNs for the sake of knowledge exchange.

In order to coordinate and control foreign subsidiaries HQ needs to intensively communicate with the focal subsidiary which is easier when both entities have a shared language. Thus, we outlined above that MNCs prefer PCN expatriates when the native language barrier between HQ and subsidiary is high. While prior research illustrates that internationalizing firms with relatively little experience in international markets tend to staff critical positions in foreign subsidiaries with PCNs to satisfy their need for control (Anderson and Gatignon, 1986), we argue that when international experience increases, MNCs’ need for control diminishes, thus, making intensive communication less important. With an increasing amount of international experience, MNCs develop a polycentric strategic approach, as they perceive less uncertainty and enhance their confidence in managing foreign subsidiaries in the process of internationalization (Johanson and Vahlne, 1977). This allows them to more intensively trust in their ability to exploit HCNs’ or TCNs’ potential and to perceive a decreased need for control (Erramilli, 1991). Therefore, high levels of a MNC’s international experience reduce the need for control-related communication between HQ and subsidiary, thus reducing the necessity of staffing the subsidiary’s CEO position with a PCN intended to assure that the subsidiary acts in accordance with HQ’s guidelines. In sum, we argue:

*Hypothesis 4a. The propensity to staff the subsidiary CEO position with a PCN when the native language barrier is high, decreases when the MNC’s international experience is high.*

If HCNs and TCNs have a low proficiency in English as a MNC’s lingua franca, thereby creating a high foreign language barrier, building up informal connections and a sense of commonality is difficult which hampers knowledge exchange between HQ and subsidiary. We argue, however, that MNCs which have developed extensive international experience by doing business in a diverse set of national markets are better able to exchange knowledge across borders, thus reducing the need for PCN expatriates.
facilitating this exchange. MNCs can utilize the organizational experience they gained by operating in
different settings for transferring resources and knowledge across international units (Anand et al.,
2005). As MNCs develop specific skills and processes for that kind of international knowledge exchange
(Gupta and Govindarajan, 2000; Hedlund, 1994), they may also be better able to attenuate the
communication barriers induced by HCNs’ or TCNs’ low English language proficiency. Moreover,
internationally experienced MNCs are used to adapt to various local environments and have access to
existing international networks (Oviatt et al., 1995), which fosters relationship building in foreign
countries and eases the establishment of communication with local managers. Therefore, internationally
experienced MNCs may less likely deploy expatriates to exchange knowledge when the foreign
language barrier is high.

Above we argued that HCNs’ and TCNs’ lack of skills of the MNC’s common corporate language leads
to isolation as well as aggravated formal reporting, thus increasing the need for coordination as well as
monitoring costs. Internationally experienced MNCs, however, more intensively trust in their ability to
cooperate with HCNs or TCNs (Selmer, 2003). That is, with increasing international experience MNCs
learn how to deal with unfamiliar environments (Kostova and Zaheer, 1999; Wilkinson et al., 2008).
Thereby, MNCs can reduce the uncertainty induced by high foreign language barriers that exist in newly
entered markets and thus the need for tight control. As uncertainty increases the costs for coordination
and monitoring of a foreign subsidiary (Williamson, 1991), firms with considerable experience on
diverse international markets, in turn, can lower such costs, also when relying on HCNs or TCNs.
Additionally, as Myloni et al. (2007, p. 2060) point out, with increasing international experience, MNCs
are supposed to develop a “cosmopolitan attitude” which grants subsidiaries more autonomy increasing
their ability to adapt to the local environment. Hence, the challenges for coordination and control
induced by isolation and disconnectedness are less pronounced. It is therefore less likely that high
foreign language barriers lead to an increased use of PCNs in overseas subsidiaries when MNCs have
accumulated international experience. In sum, we argue:

Hypothesis 4b. The propensity to staff the subsidiary CEO position with a PCN when the foreign
language barrier is high, decreases when the MNC’s international experience is high.
When the geographic distance between home and host country is high, we argued that MNCs are more likely to draw on HCNs and TCNs to staff foreign subsidiary CEO positions to avoid high travel and relocation costs and to compensate for higher message transfer efforts. MNCs that have already engaged in multiple internationalization efforts are more familiar with the particularities of foreign markets and have developed routines to deal with the challenges related to building up operations in these markets (Padmanabhan and Cho, 1999; Slangen and Hennart, 2008b). Internationally experienced MNCs are therefore better able to transfer established processes to foreign subsidiaries and to implement communication channels between HQ and subsidiary even over long distances as they better know how to organize international operations (Eriksson et al., 1997; Madhok, 1996). Against this background, MNCs even further reduce their need to rely on PCN expatriates, as they are better able to use standardized processes to link HQ with the subsidiary. Even over greater geographic distance experienced MNCs therefore apply established communication practices to exchange knowledge with foreign subsidiaries reducing the need for physical visits from home country managers or expatriates in the host country. Hence, MNCs with considerable international experience are more likely to rely on HCN or TCN CEOs in geographically distant subsidiaries.

Moreover, in terms of coordination and control, we outlined above that MNCs intend to minimize costs by abstaining from expatriate deployments to geographically distant subsidiaries which would require costly expatriate compensation. MNCs with abundant international experience, however, are not only supposed to replicate their domestic practices in the foreign market, but also allow the foreign subsidiary to more strongly adapt to local peculiarities or host country competitors’ behavior (Rosenzweig and Nohria, 1994). This strategic approach decreases the need to tightly control the foreign subsidiary and thus reduces internationalization costs since the expenses related with deploying a trusted PCN overseas can be saved. Instead, a local HCN or locally experienced TCN is better suited to make sure that the subsidiary’s practices resemble those of local firms. In a similar vein, international experience reduces uncertainty with respect to operating in a foreign country (Kim et al., 2012), which reduces the necessity for intense coordination and control by PCNs. Therefore, HQs are even more prone to use HCN or TCNs to manage geographically distant foreign subsidiaries when they possess large amounts of international experience. In sum, we hypothesize:
Hypothesis 4c. The propensity to staff the subsidiary CEO position with a HCN or TCN when geographic distance is high, enhances when the MNC’s international experience is high.

4 Methods

4.1 Data

We tested our hypotheses on a sample of German MNCs. We obtained contact details of 2,313 MNCs that were internationally active with at least one majority owned FDI (i.e., acquisition or greenfield investment) from the AMADEUS database. To investigate the interplay between communication and staffing of German MNCs, we developed a questionnaire based on established scales considering the back-translation literature (Brislin, 1970; Chidlow et al., 2014; Van de Vijver and Hambleton, 1996). We then sent a paper-based version of the questionnaire to the MNCs’ CEOs or leading Human Resource Managers. To increase the response rate we sent an e-mail to each MNC to remind it of our survey and attached the questionnaire and also called each MNC that had not responded at that time to remind it a second time and, again, sent an e-mail with the questionnaire included to those MNCs that generally agreed to participate in the survey. We received 127 responses back (6% response rate). However, due to missing data, we had to reduce our sample to 106 MNCs. In order to check for nonresponse bias, we compared early and late respondents (first and last 20% of the sample). Following (Miller and Smith, 1983), we performed a t-test on key MNC characteristics, such as size, age or type of business, but did not obtain significant results.

4.2 Dependent Variable

Our dependent variable CEO staffing refers to whether the first CEO after the focal foreign subsidiary’s establishment was a PCN expatriate (or not) (e.g., Belderbos and Heijltjes, 2005). To obtain data on the CEO’s staffing we asked the respondents whether the CEO who was presiding the foreign subsidiary immediately after its inception was German, a host country citizen or had none of these but a different nationality. We constructed a dichotomous variable with PCNs being “1” and other nationalities being “0” (i.e., HCN or TCN).
4.3 Independent Variables

Our independent variables are the three verbal communication barriers introduced by Slangen (2011) and were measured accordingly. That is, to measure the *native language barrier* between Germany and the respective host country, we draw on the composite factor consisting of three 5-point Likert-scale items developed by Dow and Karunaratna (2006) which they used to depict differences in language. The first item measures the difference between German and the closest major language in the respective host country. Thereby, a major language is defined as any language spoken by more than 20 per cent of a host country’s population or having a special status in a country (e.g., English in India). The difference is assessed on a scale ranging between 1 (same language) and 5 (different language families) and based on the Language Family Index by Grimes and Grimes (1996). The second item reflects the frequency with which German is spoken in the focal host country, while the third item measures the frequency with which a host country’s major language(s) is spoken in Germany. These two items are assessed on a scale that ranges from 1 (90 per cent or more) to 5 (less than 1 per cent).

Following Slangen (2011), we operationalize the *foreign language barrier* as the average English language deficiency in a focal host country. As pointed out by Slangen (2011) and other authors (e.g., Harzing and Pudelko, 2013), English is the most frequently used foreign language in MNCs. We draw on the scores achieved by examinees from a focal host country on the Test of English as a Foreign Language (TOEFL). Here, for the years 1992 until 2006 we used the average scores from examinees who took the paper-based test from July of the year preceding the MNC’s market entry into the respective host country until June of the year of the market entry. As the paper-based testing procedure was no longer available for the years after 2006, we draw on the internet-based test results achieved by examinees in the full year of the entry in a focal host country. As the paper-based and the internet-based test results are presented on different point scales, we calculated the percentage of maximum points reached to standardize the English language proficiency of examinees that took either the one or the other testing procedure. We then inverted the percentage to yield the deficiency in English language with higher values indicating a higher foreign language barrier. The data on the test results were collected from the website of the Educational Testing Services (ETS), which designed the TOEFL, as well as other internet sources.
Finally, *geographic distance* encompasses the great-circle distance in kilometers between the midpoints of the cities where the foreign subsidiary and HQ are located, respectively. We utilized the Google Maps Distance Calculator developed by Daft Logic to determine this distance. To correct for skewness in the distance distribution, we used the logarithm of the distances for our calculations.

Our moderator variable *general international experience* is measured as the number of countries a MNC was doing business in at the time of the survey. Hereby, we follow extant research (e.g., Slangen and Van Tulder, 2009) and use an established measure to assess a MNC’s international experience.

### 4.4 Control Variables

Further, we included several control variables in our analysis. We controlled for *cultural distance*, measured with the index developed by Kogut and Singh (1988) based on Hofstede’s (1980) cultural dimensions. Cultural distance has been shown to significantly affect a firm’s readiness to post expatriates in foreign subsidiaries (Gong, 2003). A *common corporate language* eases and facilitates communication between HQ and subsidiary, thus reducing the need of expatriates in the subsidiary (Feely and Harzing, 2003). Hence, we asked the respondents whether the MNC has implemented a common corporate language within its network. Hébert et al. (2005) point out that expatriates are important carriers of knowledge so that a MNC’s extent of prior experience in the international markets may affect a MNC’s expatriation strategy. We therefore control for a MNC’s *regional experience* using a two-item scale (Cronbach’s alpha = 0.899) asking the respondents whether their firm had prior experience in the host country or region, respectively (Schwens et al., 2011). Additionally, we control for a MNC’s experience with prior acquisitions as well as greenfield investments. *Greenfield experience* was assessed by asking the respondents to depict on a 5-point Likert scale to what extent they agree or disagree with a statement on their company’s experience with setting up new subsidiaries, while *acquisition experience* was measured by a two-item scale (Cronbach’s alpha = 0.759) of the same type depicting the amount of prior firm experience with partial and full firm takeovers, respectively (Agarwal and Ramaswami, 1992; Brouthers and Nakos, 2004). As the MNC subsidiaries in our sample are either acquisitions or greenfield investments, we controlled for this *establishment mode* with a dichotomous variable coded “1” for acquisitions and “0” for greenfield investments. Furthermore, we controlled for
the planned level of *marketing* (two item-scale, Cronbach’s alpha = 0.700) as well as *technological autonomy* (three-item scale, Cronbach’s alpha = 0.745) that was granted to the subsidiary at the time of its inception, as it determines the extent of knowledge exchange and coordination and control efforts (Gupta and Govindarajan, 1991; Slangen and Hennart, 2008a). In a similar vein, we include *access to knowledge* and *access to markets*, as a MNC’s strategic motives for the market entry may exert influence on knowledge transfer and communication behavior (Bresman et al., 1999). We measured the importance MNCs attached to these motives on a five-point Likert scale.

### 4.5 Assessing Common Method Variance

Common method variance (CMV) presents a potential problem for survey-based research when the variables included in an analysis come from a single source (Podsakoff et al., 2003). In our study, however, we believe CMV not to be a major problem for at least four reasons. First, our dependent variable is more objective in nature and therefore less likely to produce a bias compared to a perceived measure. Second, our independent variables (i.e., native language barrier, foreign language barrier, and geographic distance) were obtained from secondary sources. Third, we included interaction terms in our analysis, which present complex constructs that are less likely to be part of respondents’ considerations and thus are likely to reduce CMV. Fourth, we conducted Harman’s single factor test as suggested by Podsakoff and Organ (1986). When we entered all variables into a principal component analysis we obtained five factors with the largest one only accounting for 20.6 per cent of the eigenvalue.

### 5 Results

#### 5.1 Communication Barriers and Staffing

Table C–1 depicts the mean values, standard deviations, variance inflation factor (VIF) values as well as bivariate correlations of our variables. The correlation coefficients show no serious risk of multicollinearity as they are below the critical value of 0.7 (Alm and Mason, 2008). Likewise, the highest VIF amounts to 2.066 which is well below the critical value of 2.5 (Allison, 1999). Hence, we do not consider multicollinearity to be a major problem in our data.
Table C – 1: Mean Values, Standard Deviations, Variance Inflation Factors, and Correlations

<table>
<thead>
<tr>
<th>Variable</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>
<th>10</th>
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<th>13</th>
<th>14</th>
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</thead>
<tbody>
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<td>3.414</td>
<td>36.172</td>
<td>2.892</td>
<td>1.515</td>
<td>0.430</td>
<td>3.352</td>
<td>2.354</td>
<td>2.331</td>
<td>4.355</td>
<td>0.264</td>
<td>3.850</td>
<td>2.826</td>
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<td>SD</td>
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<td>0.881</td>
<td>7.031</td>
<td>0.598</td>
<td>30.894</td>
<td>1.128</td>
<td>0.866</td>
<td>0.498</td>
<td>1.007</td>
<td>0.997</td>
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<td>0.904</td>
<td>0.443</td>
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<td>CEO nationality</td>
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<tr>
<td>Native language barrier</td>
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<tr>
<td>Foreign language barrier</td>
<td>0.040</td>
<td>0.595</td>
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<tr>
<td>Geographic distance (log)</td>
<td>-0.182</td>
<td>0.385</td>
<td>**</td>
<td>0.561</td>
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<tr>
<td>General international experience</td>
<td>-0.250</td>
<td>**</td>
<td>0.183</td>
<td>0.180</td>
<td>0.254</td>
<td>**</td>
<td>1</td>
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<tr>
<td>Regional experience</td>
<td>-0.097</td>
<td>-0.037</td>
<td>0.028</td>
<td>-0.077</td>
<td>0.317</td>
<td>**</td>
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<tr>
<td>Cultural distance</td>
<td>-0.027</td>
<td>0.403</td>
<td>***</td>
<td>0.299</td>
<td>**</td>
<td>0.333</td>
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<td>0.137</td>
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<tr>
<td>Common language</td>
<td>-0.122</td>
<td>0.122</td>
<td>0.113</td>
<td>0.087</td>
<td>0.109</td>
<td>0.161</td>
<td>0.122</td>
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<tr>
<td>Marketing autonomy</td>
<td>-0.025</td>
<td>-0.091</td>
<td>-0.117</td>
<td>-0.152</td>
<td>0.005</td>
<td>0.204</td>
<td>*</td>
<td>-0.101</td>
<td>-0.021</td>
<td>1</td>
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<tr>
<td>Technological autonomy</td>
<td>-0.129</td>
<td>-0.108</td>
<td>-0.023</td>
<td>0.021</td>
<td>-0.007</td>
<td>0.112</td>
<td>-0.031</td>
<td>0.097</td>
<td>0.245</td>
<td>*</td>
<td>1</td>
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<tr>
<td>Motive access to knowledge</td>
<td>0.042</td>
<td>-0.130</td>
<td>-0.154</td>
<td>-0.147</td>
<td>-0.007</td>
<td>0.298</td>
<td>**</td>
<td>-0.113</td>
<td>0.013</td>
<td>0.259</td>
<td>**</td>
<td>0.191</td>
<td>*</td>
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<tr>
<td>Motive access to market</td>
<td>-0.003</td>
<td>0.091</td>
<td>0.070</td>
<td>0.231</td>
<td>*</td>
<td>0.179</td>
<td>0.111</td>
<td>0.212</td>
<td>*</td>
<td>0.197</td>
<td>*</td>
<td>-0.182</td>
<td>0.044</td>
<td>0.050</td>
<td>1</td>
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<tr>
<td>Establishment mode</td>
<td>-0.125</td>
<td>-0.140</td>
<td>-0.302</td>
<td>**</td>
<td>-0.401</td>
<td>**</td>
<td>-0.029</td>
<td>0.087</td>
<td>-0.082</td>
<td>-0.050</td>
<td>0.279</td>
<td>**</td>
<td>0.121</td>
<td>0.218</td>
<td>*</td>
</tr>
<tr>
<td>Greenfield experience</td>
<td>-0.179</td>
<td>0.195</td>
<td>*</td>
<td>0.253</td>
<td>**</td>
<td>0.195</td>
<td>*</td>
<td>0.134</td>
<td>0.238</td>
<td>*</td>
<td>0.180</td>
<td>0.270</td>
<td>**</td>
<td>0.105</td>
<td>0.130</td>
</tr>
<tr>
<td>Acquisition experience</td>
<td>-0.131</td>
<td>0.023</td>
<td>-0.022</td>
<td>-0.045</td>
<td>0.012</td>
<td>0.253</td>
<td>**</td>
<td>0.023</td>
<td>0.071</td>
<td>0.313</td>
<td>**</td>
<td>0.109</td>
<td>0.336</td>
<td>**</td>
<td>0.070</td>
</tr>
</tbody>
</table>

*p ≤ 0.10; *p ≤ 0.05; **p ≤ 0.01; ***p ≤ 0.001
As our dependent variable is dichotomous, we perform a binary logistic regression analysis to test our hypotheses. Table C – 2 reports the results of the regression analysis. Following Aiken and West (1991) we present different models that allow to highlight changes in the model fit and explanatory power between alternative models. Model 1 includes the control variables of which none shows a significant effect on CEO staffing. In model 2, we add the three direct effects of the verbal communication barriers, which increases the explanatory power of the model significantly (from 9 to 18 percent (Cox & Snell) and from 12 to 24 percent (Nagelkerke) compared to model 1) respectively. We find that the foreign language barrier has a weakly significant and positive effect ($r = 0.599; \ p \leq 0.10$) on the staffing of PCNs in foreign subsidiaries, whereas the geographic distance barrier shows an effect in the opposite direction ($r = -1.019; \ p \leq 0.01$), thus decreasing the likelihood of choosing an expatriate to manage a subsidiary abroad. Thereby, we find weak support for our hypothesis H2 and are able to confirm hypothesis H3. The native language barrier, however, has no significant effect on the staffing decision ($r = 0.060; \ p > 0.10$), leading us to reject hypothesis H1.
Table C – 2: Results from Binary Logistic Regression Analysis

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Control variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional experience</td>
<td>-0.182</td>
<td>-0.301</td>
<td>-0.120</td>
<td>-0.101</td>
<td>-0.111</td>
<td>-0.107</td>
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<tr>
<td>Cultural distance</td>
<td>-0.002</td>
<td>0.084</td>
<td>0.101</td>
<td>0.119</td>
<td>0.115</td>
<td>0.128</td>
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<tr>
<td>Common language</td>
<td>-0.192</td>
<td>-0.256</td>
<td>-0.210</td>
<td>-0.172</td>
<td>-0.187</td>
<td>-0.193</td>
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<tr>
<td>Technological autonomy</td>
<td>0.136</td>
<td>0.178</td>
<td>0.237</td>
<td>0.244</td>
<td>0.203</td>
<td>0.405</td>
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<tr>
<td>Marketing autonomy</td>
<td>-0.276</td>
<td>-0.258</td>
<td>-0.309</td>
<td>-0.276</td>
<td>-0.332</td>
<td>-0.401</td>
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<tr>
<td>Motive: Access to knowledge</td>
<td>0.351</td>
<td>0.387</td>
<td>0.374</td>
<td>0.400</td>
<td>0.453</td>
<td>0.455</td>
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<tr>
<td>Motive: Access to markets</td>
<td>0.102</td>
<td>0.325</td>
<td>0.362</td>
<td>0.360</td>
<td>0.380</td>
<td>0.395</td>
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<td>Establishment mode</td>
<td>-0.340</td>
<td>-0.595*</td>
<td>-0.511†</td>
<td>-0.431</td>
<td>-0.441</td>
<td>-0.417</td>
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<tr>
<td>Greenfield experience</td>
<td>-0.260</td>
<td>-0.275</td>
<td>-0.239</td>
<td>-0.163</td>
<td>-0.139</td>
<td>-0.208</td>
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<td>Acquisition experience</td>
<td>-0.161</td>
<td>-0.127</td>
<td>-0.239</td>
<td>-0.429</td>
<td>-0.391</td>
<td>-0.440</td>
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<td><strong>Direct effects</strong></td>
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<tr>
<td>Native language barrier</td>
<td>0.060</td>
<td>0.102</td>
<td>0.526</td>
<td>0.150</td>
<td>0.113</td>
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<tr>
<td>Foreign language barrier</td>
<td>0.599†</td>
<td>0.624†</td>
<td>0.541</td>
<td>0.754*</td>
<td>0.692*</td>
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</tr>
<tr>
<td>Geographic distance barrier</td>
<td>-1.019**</td>
<td>-0.877*</td>
<td>-0.887*</td>
<td>-0.855**</td>
<td>-0.700†</td>
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<tr>
<td><strong>Moderator variables</strong></td>
<td>General international experience</td>
<td>-0.644*</td>
<td>-0.942*</td>
<td>-1.028*</td>
<td>-0.914**</td>
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<tr>
<td><strong>Interaction effects</strong></td>
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<tr>
<td>Native language barrier x General international experience</td>
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<td></td>
<td></td>
<td>0.701</td>
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<tr>
<td>Foreign language barrier x General international experience</td>
<td></td>
<td></td>
<td></td>
<td>0.619†</td>
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<tr>
<td>Geographic distance barrier x General international experience</td>
<td></td>
<td></td>
<td></td>
<td>0.682†</td>
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<tr>
<td><strong>Reliability</strong></td>
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<tr>
<td>Model $\chi^2$</td>
<td>9.36</td>
<td>20.40†</td>
<td>25.07*</td>
<td>27.53*</td>
<td>29.13*</td>
<td>28.69*</td>
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<tr>
<td>$\Delta$ Model $\chi^2$ (vs Model 3)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2.46</td>
<td>4.06*</td>
<td>3.62†</td>
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<tr>
<td>$R^2$ (Cox &amp; Snell)</td>
<td>0.09</td>
<td>0.18</td>
<td>0.21</td>
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<tr>
<td>$R^2$ (Nagelkerke)</td>
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<td>0.29</td>
<td>0.32</td>
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<tr>
<td>Correct classifications (%)</td>
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<td>68.9</td>
<td>70.8</td>
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<td>68.9</td>
<td>69.8</td>
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<tr>
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<td>106</td>
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<td>106</td>
<td>106</td>
<td>106</td>
</tr>
</tbody>
</table>

DV: CEO staffing (PCN opposed to HCN or TCN); †p ≤ 0.10; *p ≤ 0.05; **p ≤ 0.01; ***p ≤ 0.001

5.2 The Moderating Effect of International Experience

In model 3, we included the direct effect of our moderator variable which shows a significant and negative effect ($r = -0.644$; $p \leq 0.05$) on the staffing decision of PCNs as subsidiary CEOs. The interaction effects were added in models 4-6. Here, the models 5 and 6 show a significant increase in
model fit ($\Delta \chi^2$) compared to Model 3, indicating that the interaction terms are not trivial (Jaccard, 2001). While Model 5 predicts a weakly significant moderating effect ($r = 0.619; p \leq 0.10$) of general international experience on the relationship between the foreign language barrier and MNC’s expatriate staffing decision, Model 6 in Table 2 shows a weakly significant moderating effect for geographic distance ($r = 0.682; p \leq 0.10$). The interaction of native language barrier and international experience in Model 4, however, is trivial and insignificant ($r = 0.701; p > 0.10$).

Analyzing interactions in non-linear models is more complicated than in linear models, as they cannot be interpreted simply on the basis of the direction, magnitude, and statistical significance of the coefficients (Hoetker, 2007; Norton et al., 2004; Zelner, 2009). Therefore, we additionally use graphs to analyze the interaction effects and, thus, follow the recommendations as suggested by Zelner (2009) by reporting two sets of plots in Figures C – 1 to C – 3. Hence, in the first set of plots we compare the projected probabilities of PCN staffing (y-axis) at different levels of native language barrier, foreign language barrier, and geographic distance (x-axis), respectively, for high (solid line) and low (dashed line) levels of international experience. To further assess the significance of the interaction effects, we include a second set of plots that show the difference between high and low levels of international experience for different levels of native language barrier, foreign language barrier, and geographic distance, respectively (i.e., the vertical distance between the dashed and the solid line in the first set of plots), also including the 95 per cent confidence intervals for these differences (depicted by the bars).
Figure C – 1a: Interaction Plot – Native Language Barrier: Predicted Probabilities for High and Low International Experience

Figure C – 1b: Interaction Plot – Native Language Barrier: Delta Predicted Probabilities for High vs. Low International Experience
Figure C – 2a: Interaction Plot – Foreign Language Barrier: Predicted Probabilities for High and Low International Experience

Figure C – 2b: Interaction Plot – Foreign Language Barrier: Delta Predicted Probabilities for High vs. Low International Experience
Although model 2 shows no significant direct effect of native language barrier and model 4 gives no indication of a significant moderating effect of international experience on the relationship between the native language barrier and subsidiary CEO staffing, the graphical analysis provides a more detailed perspective. While Figure C – 1a suggests that at high levels of international experience the probability
of choosing an expatriate as subsidiary CEO is generally lower than at low levels of international experience, Figure C – 1b demonstrates a significant negative moderating effect from medium to high values of the native language barrier. Hence, we find at least some weak indication for the theoretical rationale developed in hypothesis H4a arguing for a weaker effect of native language barrier on PCN staffing in the presence of high international experience. Figures C – 2a and C – 2b indicate that international experience significantly moderates the relationship between foreign language barrier and subsidiary CEO staffing. It becomes evident that international experience is a weakly significant negative moderator from low to medium values of the foreign language barrier, providing only weak support for our hypothesis H4b, in which we suggest that international experience weakens the positive effect of foreign language barrier on staffing subsidiaries with PCNs. Figure C – 3a demonstrates that at high levels of international experience the effect of geographic distance on subsidiary CEO staffing is weak as indicated by the almost horizontal dashed line. In Figure C – 3b we see that international experience is a significant positive moderator from low to medium-high values of geographic distance. These results support our hypothesis H4c that predicted a stronger negative effect of geographic distance on the propensity to staff the CEO position with a PCN in the presence of high international experience leading us to confirm this hypothesis.

6 Discussion

The present paper developed and tested a model that centers around the effect of three verbal communication barriers (i.e., native language barrier, foreign language barrier, and geographic distance) on MNCs’ staffing of subsidiary CEO positions, contingent on the MNC’s general international experience. Testing our theoretical predictions on a sample of German MNCs, we found (although sometimes weak) support for some of our theoretical predictions.

Our study seeks to contribute to theory by developing a communication-based perspective on expatriate staffing. In this respect, we obtain differentiated findings with regards to native and foreign language barriers and their impact on firms’ subsidiary staffing decisions. That is, we find that the native language barrier has no effect on MNCs’ staffing decision, while the foreign language barrier significantly (albeit weakly) influences firms’ probability to rely on expatriates. A potential explanation might be that the
English language became established as the lingua franca in international business (Nickerson, 2005), which reduces the importance of native languages for interactions between HQ and foreign subsidiary. While prior literature might have overestimated the importance of differences between native languages (Cuypers et al., 2015), Fredriksson et al. (2006, p. 409) point out that “introducing a common corporate language will not render the firm monolingual”. So, even if a MNC established English as the official language for communication within the company, employees still rely on their native languages. In this regard, Hinds et al. (2014) find that employees with a low confidence in their lingua franca skills used their native language to communicate with colleagues of the same nationality even if colleagues with different nationalities were present. Additionally, prior literature points to the disintegrating effects on organizations the implementation of a common corporate language can entail (Piekkari et al., 2005). Against this background, future research might delve deeper into the interplay of the use of native languages and a common corporate language in the context of expatriate staffing and beyond. This subject especially touches the use of language policies in MNCs. Here, Peltokorpi (2015b) showed recently in one of the first quantitative studies on language policies that subsidiaries led by expatriate CEOs have more language policies in place than subsidiaries with HCN top managers. Hence, we encourage future research to further quantitatively assess the relationship between managers’ nationality and language use both on the subsidiary and the MNC level.

With regard to geographic distance, we find that MNCs less likely choose PCN expatriates for the subsidiary CEO position when geographic distance is high. This result is supported by Harzing and Noorderhaven (2006) who also find that PCN CEOs are less likely used in Australian and New Zealand subsidiaries of MNCs headquartered in the US, Japan or Europe. This underlines the notion that HQs rely on other means of control than direct control by expatriates. We encourage future research to delve deeper into such alternative control mechanisms. Further, in our study, we analyze the expatriate staffing decision of German MNCs. In this regard, Zaheer (2000) explains that Europe has a privileged position in terms of its temporal location. MNCs located in Germany (and thereby in the center of Europe) can benefit from this location as coordinating subsidiaries in the Western as well as in the Eastern hemisphere is possible throughout a normal workday. Against this background, we encourage replication studies in locations with less central time zones. In more general terms, we highlight the
central role of geographic distance for expatriate staffing decisions. To the best of our knowledge, only Abdellatif et al. (2010) explicitly investigate the impact of geographic distance on employing expatriates in foreign subsidiaries supporting our negative relationship. In contrast, in an interview study, Beddi and Mayrhofer (2013) acknowledge that MNCs might rely more heavily on expatriates in geographically distant subsidiaries to increase control over these subsidiaries. To resolve this contradiction, it might also be interesting for future research to further disentangle the geographic distance construct. Following for instance Gooris and Peeters (2014), it may add value to the investigation of MNCs’ staffing decisions as well as communication barriers to decompose geographic distance into a spatial and a temporal component. Especially with regards to the time zone argumentation used in our study this allows for drawing a more fine-grained picture of the communication barrier – expatriation relationship.

Moreover, the present study shows that general international experience affects the relationships between verbal communication barriers and MNCs’ expatriate staffing decision. Thereby, our findings run counter to prior research that proposes that only country-specific experience influences strategic decisions affected by (elements of) psychic distance, because psychic distance is caused by differences between specific markets, which can only be overcome by market-specific host country experience (Dikova, 2009). Our analysis, however, provides some empirical evidence for our rationale that international experience affects how MNCs make staffing decisions based on communication barriers between HQ and subsidiary. We hence make clear that internationally experienced MNCs are less likely to rely on PCN expatriates to overcome native and foreign language barriers as well as geographic distance due to standardized processes and language policies for a better knowledge exchange and a lower need for control. Thus, we add another dimension to prior literature which indicates that international experience helps to reduce uncertainty caused by cultural distance (Delios and Henisz, 2003). Following Hocking et al. (2007) future research may shed more light on the kind of knowledge transferred by expatriates and the reference points of their communication efforts. Thus, it might be of relevance for the use of PCN expatriates whether they are supposed to exchange locally accessible and relevant knowledge vs. global knowledge and whether they engage in local communication or global communication – a fruitful area for future research to delve deeper into.
7 Limitations and Implications

As with most empirical research, our study has several limitations. First, we do not differentiate between HCNs and TCNs as alternatives to PCN staffing. Such differentiation was not feasible due to the low sample size on which our analysis is based. Although it is common in expatriate staffing literature to compare PCN staffing to only HCN staffing or HCN/TCN staffing jointly together in one category (e.g., Gaur et al., 2007) or to exclude TCNs from analysis due to a negligible amount of TCNs present in subsidiaries (e.g., Colakoglu and Caligiuri, 2008), we encourage future research to disentangle the choice between PCN, HCN, and TCN staffing when investigating the impact of (verbal) communication barriers.

Second, due to the low sample size, our findings should be interpreted with caution. Although small samples are not unusual in research on staffing decisions (e.g., Ando et al., 2008; Boyacigiller, 1990; Pérez and Pla-Barber, 2005), our analysis might have low statistical power reducing the chances of detecting true effects or increasing the probability of overestimating identified effects. We therefore urge future studies to replicate our study on larger samples.

Third, we only study staffing decisions of MNCs located in Germany which restricts the generalizability of our findings. Relying on only one home country might be problematic due to specific characteristics related with the German language or managers having German as first language. Moreover, prior research finds that German MNCs tend to have a generally higher propensity to staff foreign subsidiaries with expatriates (Harzing, 2001a) which might affect our findings. Thus, we encourage future research to study how verbal communication barriers impact staffing decisions of MNCs from other countries.

Finally, there is a time lag between the points in time we measured a MNC’s general international experience and the subsidiary’s CEO nationality. As indicated in the Methods section of this paper, we asked respondents of our questionnaire to indicate the MNC’s international experience at the time the survey was conducted, while asking in the questionnaire for the subsidiary’s CEO nationality at the time the subsidiary was established. This leads to a time lag of three years on average. Therefore, we encourage future research to use measures for general international experience that depict a MNC’s experience at the time of the staffing decision to prevent potential biases due to a time lag.
Our study has several implications for the management of HQ – subsidiary relations across borders, particularly with regard to subsidiary staffing decisions. Our findings show that managers should be aware of verbal communication barriers when making decisions on the staffing of foreign subsidiaries. Here, it might be of particular relevance for managers to know that overcoming different kinds of verbal communication barriers might require different staffing approaches. While HCNs and TCNs might be eligible to establish coordination and control as well as knowledge transfer between HQ and geographically distant subsidiaries, PCN staffing might be the approach of choice to cope with foreign language barriers. In this regard, managers may find it useful to know that especially foreign language skills are important for subsidiary staffing decisions, while the consideration of local native languages might be of less relevance. While we focus on English as the most often used lingua franca in the business arena, there might be other important languages depending on the HQ’s and/or subsidiary’s location relevant for corporate communication (e.g., French in Africa). These notions reiterate the importance of language training for expatriates to improve communication and expatriate adjustment (Selmer and Lauring, 2015). Finally, decision makers should keep in mind the international experience of the MNC when making staffing decisions. A MNC’s international experience determines the amount of internationally experienced managers in the company available for expatriate assignments and affects MNC’s ability to standardize (communication) processes when establishing new subsidiaries. Hence, staffing decisions should not be made in isolation, but under consideration of other firm-related, country-related or industry-related factors.
Study 3: Which Strategies Help Firms to Overcome Language Barriers? Five Practical Recommendations

1 Introduction

Internationalization represents a critical step in a firm’s life. Whether driven by a global vision or a saturated home market, firms enter new markets to sell their products or services, to get access to knowledge or natural resources or to diversify risk (Al-Laham and Souitaris, 2008; Dunning, 2000; Gomez-Mejia et al., 2010). Such internationalization steps normally require a considerable amount of resources and require decisions on, among others, which country to enter and which market entry mode to use (Hitt et al., 2006; Yip et al., 2000). Internationalization is particularly challenging, when a firm decides to go abroad by performing a foreign direct investment, as it is especially resource intensive, increases market commitment, and is hence difficult to reverse (Lu and Beamish, 2001).

Differences between a firm’s home and host country further complicate internationalization as they make it more difficult for firms to learn about foreign markets and to operate there (O’Grady and Lane, 1996). In this regard, extant literature often draws on Johanson and Vahlne’s (1977) concept of psychic distance which names differences in language, culture, business practices, education, and industrial development as factors preventing the flow of information between countries. Due to these differences firm performance is likely to be negatively affected as they increase costs for interpreting and exchanging information, enhance the risk of misinterpretations and, hence, increase transaction costs (Boyacigiller, 1990; Dow and Karunaratna, 2006; Evans and Mavondo, 2002).

From the bundle of psychic distance factors language has shown to significantly affect a firm’s international activities, e.g. with respect to market entry modes (Slangen, 2011), cross-border knowledge sharing (e.g., Mäkelä et al., 2007) or expatriate adjustment (e.g., Selmer and Lauring, 2015). That is because the lack of a common language, either because the languages spoken by managers are very different or because managers have only insufficient language skills, causes a language barrier (Marschan et al., 1997; Slangen, 2011). Thereby, this barrier can cause frictions on two different levels. First, language differences complicate the relationship between headquarters (HQ) and foreign
subsidiary as the flow of information and understanding is hampered (Harzing and Feely, 2008; Johanson and Vahlne, 1977). Therefore, building a close relationship between HQ and subsidiary is difficult as language barriers hinder important processes such as exchange of knowledge and technology or coordination and control or even lead to conflict and parallel information networks (Feely and Harzing, 2003; Harzing and Pudelko, 2014). Second, if a firm seeks to establish effective communication between HQ and the foreign subsidiary, e.g. through deploying expatriates or introducing a common corporate language, a language barrier within the subsidiary may still exist or may even be created by the measures undertaken to eliminate the barrier between HQ and subsidiary (Feely and Harzing, 2003). That is, differences in languages or language capabilities cause conflict and inhibit effective teamwork on the subsidiary level (Feely and Harzing, 2003).

Also, in an attempt to quantify the effects of language differences in international trade, economists estimate the costs of language barriers to up to 22 percent in terms of tariff equivalents, while having a shared language between countries can increase binational trade by up to 170 percent (Hagen, 2011; Noguer and Siscart, 2003). On the other hand, a lack of language skills among a firm’s employees can severely impair its business which is especially significant for small and medium-sized firms due to their more limited resource base. In this regard, prior studies show that smaller firms lose potential contracts worth up to € 25.3 million as a consequence of insufficient language skills (Hagen, 2011).

To overcome such barriers, however, firms, can draw on a variety of strategic measures. First, prior research promotes the implementation of a common corporate language as a way to foster formal and informal communication as well as a sense of belonging (Marschan-Piekkari et al., 1999a). This notion is supported by practical examples such as the well discussed “Englishnization” strategy implemented by Hiroshi Mikitani in his company Rakuten. Moreover, the employment of expatriates in foreign subsidiaries is regarded as an adequate strategy to eliminate communication barriers between HQ and subsidiary as expatriates are knowledgeable about the HQ’s language and, hence, act as language nodes which facilitates exchange between these two parties (Feely and Harzing, 2003; Marschan et al., 1997). Also, the mode of entry used by a firm to enter a foreign country has implications for the communication between HQ and the subsidiary. Depending on whether the subsidiary was established through a joint venture (JV), a wholly-owned subsidiary (WOS), an acquisition or a greenfield investment, the firm
incurs different costs of and faces different obstacles in communicating with the subsidiary (López-Duarte and Vidal-Suárez, 2010; Slangen, 2011).

Although the language barrier is a relatively salient obstacle for internationalizing firms (Slangen, 2011), researchers as well as practitioners underestimated the importance of language for a long time (Liesch et al., 2002). We intend to overcome this deficit by placing language center stage and highlight its significance for a successful international business. To this end, we developed a questionnaire using established scales and conducted a survey among 2,313 German internationalizing firms which we identified by drawing on the AMADEUS database. We sent the paper-based questionnaire to CEOs and top Human Resources (HR) executives and followed-up on our initial mailing by sending a reminder and by calling each sample firm to increase the response rate. The survey took place between August 2014 and September 2015 and we received 127 questionnaires back, resulting in a response rate of about 6 percent. We compute and compare the mean values of the importance of the five psychic distance dimensions as well as of the subsidiaries’ performance and draw on frequencies for our analyses.

Based on the generated data we develop five recommendations that, first, visualize the significance of language barriers for the management of cross-border HQ-subsidiary relations as well as local operations in foreign countries. Here, we particularly underline the importance of language barriers compared to other home-host country differences to be considered in the process of firms’ internationalization. Second, we illustrate ways to cope with language barriers by discussing how language standardization, expatriate subsidiary staffing as well as different entry mode choices are suitable strategies for internationalizing firms to overcome such barriers impacting a foreign subsidiary’s performance.

2 Recommendation #1: Don’t Underestimate the Impact of Language Barriers

Language differences represent the most immediate and obvious barrier to communication and information exchange in foreign countries (Dow and Larimo, 2011). Compared to barriers induced by other psychic distance factors, language is the only one that can render communication completely impossible (Harzing and Pudelko, 2014). Moreover, a country’s language can be seen as “the most important legacy of history” (Håkanson and Ambos, 2010, p. 199). As such, language goes beyond
providing access to information or allowing managers to conduct business in a host country. When two
countries share a common language, it rather demonstrates deeply rooted historical ties that manifest
themselves in, for instance, common traditions, similar cultural heritage and political views or everyday
things like sports events (Brewer, 2007; Ghemawat, 2001; Håkanson and Ambos, 2010). In this regard,
language is “a question of strategic importance worthy of attention by executives and researchers alike”
(Maclean, 2006, p. 1379).

Against this background we find in our recent study among German internationalizing firms that
managers regard the difference in language between Germany and the target country as the most
pertinent barrier to internationalization. Asked to indicate on a five-point Likert scale (ranging from
1=very small differences to 5=very large differences) how severe managers assess the differences
between Germany and the target country, language differences received the highest score being 3.83 on
average, as can be seen in Table D – 1. This value is significantly higher than those for all other factors
linked to psychic distance. Moreover, managers rate cultural differences between the focal countries as
the second most critical barrier (mean value: 3.45), while diversity in business practices ends up in third
place (mean value: 3.44). The industrial as well as the educational level of development in the host
country compared to Germany represent less important factors complicating internationalization as they
score relatively low on the five-point scale (industrial development mean value: 3.15; education mean
value: 2.94).

**Table D – 1: Mean Value Comparison of Importance of Psychic Distance Elements**

<table>
<thead>
<tr>
<th>Difference in…</th>
<th>Mean</th>
<th>Sign. of difference between mean of language difference and other differences (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Language</td>
<td>3.83</td>
<td>n.a.</td>
</tr>
<tr>
<td>Cultural</td>
<td>3.45</td>
<td>t(116)=3.270, p = 0.001</td>
</tr>
<tr>
<td>Business practice</td>
<td>3.44</td>
<td>t(116)=3.473, p = 0.001</td>
</tr>
<tr>
<td>Industrial development</td>
<td>3.15</td>
<td>t(116)=5.653, p = 0.000</td>
</tr>
<tr>
<td>Education</td>
<td>2.94</td>
<td>t(116)=7.953, p = 0.000</td>
</tr>
</tbody>
</table>
Managers, therefore, seem to acknowledge that differences in the languages spoken in the home and the host country can severely hamper firms’ international operations. First, the language barrier affects the relationship between HQ and subsidiary. Here, it is particularly difficult for firms to control and coordinate foreign subsidiaries and to transfer knowledge across borders, when language barriers are high (Feely and Harzing, 2003; Welch et al., 2005). As language determines the “circulation, presentation, and interpretation” of information, it is HQ’s tool to coordinate and control the firm’s global activities (Luo and Shenkar, 2006, p. 323). However, due to language differences and managers lacking necessary language skills, the HQ-subsidiary relation is impaired by misunderstandings, conflict, and frustration inhibiting effective coordination and control (Marschan-Piekkari et al., 1999a; b; Neal, 1998). Moreover, managers with the necessary language skills to bridge the linguistic differences between HQ and subsidiary may function as language nodes and hence occupy gatekeeping positions from which they can regulate the flow of information (Marschan et al., 1997; Piekkari et al., 2005). As a consequence, those managers have more power than their formal position in the firm would entail, indicating a change in the firm’s power structure based on managers’ language skills (Marschan-Piekkari et al., 1999b). Practitioners should therefore understand the language practices they apply in their firms not only as means to empower communication among units, but explicitly as a way to exercise power (Vaara et al., 2005). Likewise, for knowledge transfer, language differences represent considerable barriers as they exacerbate encoding and decoding of messages and hence an effective exchange of knowledge (Schomaker and Zaheer, 2014). In order for knowledge to be exchanged, some form of communication has to occur through which this knowledge is articulated. For that, language is absolutely basic because it serves as the “shared medium of communication” (Hedlund, 1999, p. 11; Welch and Welch, 2008). However, when managers from HQ and the subsidiary, respectively, do not master each other’s language, they lack this shared medium, which leads to distortion in the knowledge exchange process (Welch and Welch, 2008).

Against this background advanced information and communication technology (ICT) is also not fully capable of alleviating the challenges tied to language barriers. That is because also ICT only allows for less rich communication as face-to-face communication is not always possible (Johnston and Rosin, 2011). Thereby, communication is bereft of an important element which helps to transmit a message’s
meaning and to convey emotions (Gabbott and Hogg, 2001). Particularly for the exchange of tacit knowledge, however, high bandwidth and synchrony, where bandwidth refers to the inclusion of non-verbal and visual cues in communication and synchrony to the ability to provide immediate feedback, are essential to minimize transmission losses (Daft and Lengel, 1984; 1986; Noorderhaven and Harzing, 2009; Peltokorpi, 2015a). Moreover, prior literature shows that only employees with a high proficiency in the language used to communicate with co-workers (e.g., a common corporate language) are more likely to use channels of richer communication (Peltokorpi, 2015a). Managers with a low language proficiency, in turn, rely on leaner communication, such as email, as it allows formulating messages at a pace corresponding to the manager’s skills and to seek for assistance in translating (parts of) the message (Harzing et al., 2011). For practitioners it is therefore important to acknowledge that advanced ICT contributes to an efficient exchange of knowledge within the global firm but that language barriers also affect managers’ choice of communication channels and thereby the efficiency and effectiveness of knowledge transfer between HQ and subsidiary.

On a second level, the language barrier effects the within-subsidiary relations. As our research among German MNEs shows in Figure D – 1, host country managers’ German language skills are at best mediocre. On a scale from 1 (very low proficiency) to 5 (very high proficiency) host country managers’ proficiency in German amounted to an average value of 2.65. Language skills on the workforce level were even lower, as indicated by an average German language proficiency of 1.90.

**Figure D – 1: Home and Host Country Managers’ Language Proficiency**
Likewise, German managers’ host country language skills are also only at a medium level. Here, HQ managers’ host country language skills amount to a value of 2.52 on average. As already pointed out, the use of expatriates is a commonly applied strategy to overcome language barriers between HQ and subsidiary; therefore, if HQ decides to send home country employees to the subsidiary in order to establish communication between HQ and the foreign subsidiary, a new barrier to communication between expatriates and local employees is created.

3 Recommendation #2: Define and Implement a Common Corporate Language

In order for firms to overcome language barriers managers can choose from a variety of measures. Based on our research among German international firms we propose that language standardization through implemented language policies is a promising tool to cope with language barriers between HQ and subsidiary as well as within subsidiaries.

Language standardization encompasses the implementation of one or multiple common corporate languages that are used for communication and documentation within the corporate network (Marschan-Piekkari et al., 1999a). Here, firms either choose their home country language or a third country language (most likely English as the most prominent lingua franca in international business) as common corporate language (Peltokorpi, 2015b). In the case of the German-based engineering company Siemens, for example, even two languages emerged as corporate languages: English and German (Fredriksson et al., 2006). Although corporate languages on the firm-level and on the subsidiary-level are mostly aligned, subsidiaries may have their own language policies leading to the home country language, the host country language or a third country language being the designated common language (Peltokorpi, 2015b).

Having a common corporate language in place offers a firm certain benefits to handle language barriers. Employing people who speak the same language within the entire firm lowers the likelihood of misunderstandings, reduces costs and time efforts to translate messages or documents and creates a sense of togetherness within the firm (Marschan-Piekkari et al., 1999b). Thereby, firms are able to ensure a better flow of information and transfer of knowledge between its units and improve coordination and monitoring in multilingual environments (Luo and Shenkar, 2006; Marschan-Piekkari et al., 1999b).
Coordinating a global firm effectively and being able to tap into crucial knowledge and efficiently disseminate it within the firm serves as a key source for a firm’s competitive advantage (Lagerström and Andersson, 2003). Hence, the strategic use of language in the firm itself has major implications for creating competitive advantage (Dhir, 2005).

Our research findings support the notion that a common corporate language helps overcome communication barriers leading to an improved organizational performance. In order to assess the effects of a common language we compared the subsidiaries’ performance of firms that had implemented a corporate language to those that had not. We find that subsidiaries of firms which use a specific corporate language for internal communication show a statistically significantly better performance than firms without such a language standardization.

Table D – 2: Performance Differences of German Firms’ Subsidiaries Depending on Common Corporate Language Established

<table>
<thead>
<tr>
<th>Common corporate language / Differences in…</th>
<th>Full sample</th>
<th>Low barriers</th>
<th>High barriers</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.20</td>
<td>3.47</td>
<td>p = 0.020</td>
<td></td>
</tr>
<tr>
<td>Psychic Distance</td>
<td>3.24</td>
<td>3.40</td>
<td>p = 0.035</td>
</tr>
<tr>
<td>Industrial development</td>
<td>3.27</td>
<td>3.28</td>
<td>p = 0.043</td>
</tr>
<tr>
<td>Culture</td>
<td>3.22</td>
<td>3.44</td>
<td>p = 0.021</td>
</tr>
<tr>
<td>Business practices</td>
<td>3.27</td>
<td>3.51</td>
<td>p = 0.015</td>
</tr>
<tr>
<td>Language</td>
<td>3.11</td>
<td>3.31</td>
<td>p = 0.030</td>
</tr>
<tr>
<td>Education</td>
<td>3.18</td>
<td>3.44</td>
<td>p = 0.022</td>
</tr>
</tbody>
</table>

Most interestingly, it is important to note that these performance differences are particularly pertinent when subsidiaries operate in an environment that is characterized by high language barriers. Table D – 2 indicates that firms which did not have a common language evaluated their subsidiaries’ performance with on average 3.20 on a 5-point Likert scale (1=very low performance, 5=very high
performance), while subsidiaries with a common corporate language in place showed a performance of 3.60, when the language differences were large, indicating a statistically significant difference. Besides, referring to the other barriers subsumed under the psychic distance construct, subsidiaries using a common corporate language also perform better than subsidiaries not using such a language when they are affected by barriers induced by country differences in industrial development, culture, business practices, and education.

It is therefore not surprising that also many German companies introduced English as the single common corporate language or as the second official corporate language next to German. Among them are of course global players like Adidas, Daimler or SAP (Horovitz and Ohlsson-Corboz, 2007; Neeley, 2012). Further, there are also small and medium-sized firms, which play a particularly important role in Germany’s economy, that use a common corporate language to facilitate communication among employees and with customers. For example, the Hamburg-based online game developer Innogames introduced English as lingua franca to support its growth strategy (Schröpfer, 2016). With about 400 employees from 33 nations Innogames hires from all around the world as there are not enough skilled personnel in Germany alone. With such a highly diverse and multilingual workforce English is the common denominator that allows to reduce language barriers and to facilitate knowledge exchange within the firm.

However, managers should be aware that the establishment of one corporate language can also have detrimental effects on communication and information flows within the firm. When the standard language excludes employees from the knowledge sharing process, e.g. due to limited language proficiency, firms might not unleash the full potential of their intercultural and multilingual workforce and lose access to potentially valuable (knowledge) resources (Dhir, 2005; Dhir and Gökë-Pariolà, 2002; Fredriksson et al., 2006). This underlines the importance of integrating the implementation of a common corporate language into a broader language policy or strategy that also links to other corporate functions such as HR. Hence, in order to achieve smooth communication among employees and corporate units, firms should put emphasis on continuous language training for their employees and language-sensitive recruitment to make sure that all employees can participate in information exchange processes (Feely and Harzing, 2003; Peltokorpi, 2015b).
4 Recommendation #3: Expatriates Are Not a Panacea

In scientific research it is well established that the use of expatriates has positive effects on communication between HQ and a foreign subsidiary as expatriates serve as important language nodes (Feely and Harzing, 2003). Hence, they have the potential to contribute significantly to coordination and control purposes and knowledge transfer across language barriers (Barner-Rasmussen and Björkman, 2005; Delios and Bjorkman, 2000). Expatriates speak the same language as home country managers, are familiar with corporate practices and policies, and have an established company-wide network of contact persons which helps link especially new subsidiaries to HQ (Fang et al., 2010; Gupta and Govindarajan, 2000). By employing expatriates firms can therefore ensure both formal and informal communication between HQ and subsidiary (Peltokorpi, 2007). In this regard, literature reports on cases of Japanese subsidiaries in which decision-making is impossible until the expatriate returns from a business trip because no other employee is able to read the communications from HQ which are written in Japanese (Harzing et al., 2011; Yoshihara et al., 2001).

Our research highlights that also German firms rely on expatriate managers to staff foreign subsidiaries. While 36 percent of the subsidiaries operated by German firms had a German CEO directly after they were acquired or built up from scratch, the share of Germans among subsidiary CEOs was only 7 percent before they were acquired (Figure D – 2). Also several years after the foreign subsidiary’s establishment 34 percent of the studied German firms still rely on expatriates which indicates that parent country nationals are not only utilized to better manage a subsidiary’s inception phase.

**Figure D – 2: Nationality of German Firms’ Subsidiary CEOs**

![Graph showing nationality of German firms' subsidiary CEOs](image-url)
In 2012 the German electric company and automotive supplier Bosch, for instance, employed more than 5600 employees outside their home country to transfer expert knowledge to foreign subsidiaries (Scholz, 2013). These overseas assignments at Bosch are embedded in a broader expatriation strategy that clearly structures important aspects such as preparation, training, mentoring and repatriation. With such a holistic expatriation approach and by making a stay abroad a requirement for promotion, Bosch achieves low failure rates during the stay and low fluctuation afterwards, making expatriation worthwhile both for the company and the employee (Scholz, 2013).

Although extant literature emphasizes the advantages of the utilization of expatriates for overcoming language barriers and despite the heavy use of expatriates in practice, sending home country managers also comes with considerable challenges decision-makers should be aware of when trying to improve communication within their firms. First, expatriates may distort communication between HQ and the subsidiary instead of exerting facilitating effects as language and language skills can influence the power structure in a firm. In this regard, due to their informal contacts to HQ managers, expatriates may bypass formal lines of reporting when communicating with HQ (Harzing and Feely, 2008). Based on their language skills expatriates are likely better suited for communication with HQ than local subsidiary managers who may lack the necessary language proficiency. Therefore, expatriates act as gatekeepers channeling the flow of information between HQ and subsidiary, putting them into a more powerful role than their formal position would indicate and affecting subsidiary control (Marschan-Piekkari et al., 1999b). The presence of expatriates may hence alter the formal organizational structure of the subsidiary diverting reporting and communication lines, which creates a shadow structure. Also in this regard, continuous language training to enable all employees to communicate with HQ serves as an important measure to align formal and informal power and communication structures (Marschan-Piekkari et al., 1999b).

Second, even if the employment of expatriates improves the communication between HQ and subsidiary, it shifts down the language barrier to the subsidiary level (Feely and Harzing, 2003). Studies show that while most of the communication between expatriates and HQ takes place in the home country language, virtually the entire subsidiary management is conducted in the host country language, so that expatriates need to be proficient in both the home and the host country language to effectively engage
in information and knowledge exchange (Feely and Harzing, 2003). Thus, the difference in native languages of expatriates and local employees, i.e. the language barrier, still exists on the subsidiary level. Moreover, differences in communication styles and national cultural values even increase this barrier (Peltokorpi, 2007). The cultural background of individuals determines the way they encode, transmit, and receive messages. Without a common cultural frame of reference an expatriate therefore might interpret the message sent from a local employee (or vice versa) differently than intended, which exacerbates meaningful interactions and teamwork between expatriates and local managers (Lauring, 2011).

Our research underlines these detrimental effects of expatriation. Comparing the performance of German firms’ subsidiaries that had a German CEO with those that had a host country national or third country national as top manager, we find that the latter group showed a significantly better performance, as indicated in Table D – 3. While this is true for the entire sample of German firms we studied (performance of 3.15 versus 3.42), having deployed an expatriate has also no positive effect when the language barrier between Germany and the host country is high. Hence, subsidiaries with a German CEO report a performance value of 2.99 (on a 5-point Likert scale), whereas subsidiaries with a local or third country CEO reach a value of 3.57 when they operate under conditions of high language barriers. We therefore cannot support the notion of an improved communication between HQ and subsidiary or within the subsidiary, at least not in terms of recognizable performance outcomes. Instead, the differences in languages as well as the difficult adjustment of expatriates to local cultural conditions and communication styles might hamper the development of German firms’ foreign subsidiaries. Beyond that, the use of expatriates is also not suitable to overcome the other types of barriers related to psychic distance between a home and a host country. Hence, when the psychic distance in general or the difference in industrial development in particular are high, subsidiaries with a local CEO perform better. Likewise, when the psychic distance and cultural distance are low or differences in business practices rather small, subsidiaries without a German CEO report better performances.
Table D – 3: Performance Differences of German Firms’ Subsidiaries Depending on the Use of Expatriates

<table>
<thead>
<tr>
<th>Use of expatriates / Differences in...</th>
<th>Full sample</th>
<th>Low barriers</th>
<th>High barriers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Expat</td>
<td>Other</td>
<td>Sign.</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>------------</td>
<td>----------</td>
<td>-------</td>
</tr>
<tr>
<td>Psychic Distance</td>
<td>3.15</td>
<td>3.42</td>
<td>p = 0.035</td>
</tr>
<tr>
<td>Industrial development</td>
<td>3.19</td>
<td>3.32</td>
<td>p = 0.595</td>
</tr>
<tr>
<td>Culture</td>
<td>3.02</td>
<td>3.45</td>
<td>p = 0.008</td>
</tr>
<tr>
<td>Business practices</td>
<td>2.99</td>
<td>3.52</td>
<td>p = 0.001</td>
</tr>
<tr>
<td>Language</td>
<td>3.20</td>
<td>3.20</td>
<td>p = 0.994</td>
</tr>
<tr>
<td>Education</td>
<td>3.09</td>
<td>3.37</td>
<td>p = 0.242</td>
</tr>
</tbody>
</table>

With these findings indicating that subsidiaries perform better under conditions of high language barriers when they have a host country national or third country national as CEO we potentially form a contrast to the propositions made by Klier and Schwens (2016). The authors find that the higher the foreign language barrier, the more likely firms staff their subsidiary with an expatriate in order to improve communication between HQ and subsidiary. We explain this ambiguity with different reference points firms may have when making strategic staffing decisions under consideration of language barriers. On the one hand, firms may give precedence to internal communication requirements by employing expatriates in their subsidiaries. Thereby, they ensure effective and efficient communication between HQ and subsidiary to facilitate knowledge exchange as well as coordination and control (Torbjörn, 1994). On the other hand, firms may put emphasis on smooth external communication between the subsidiary and local stakeholders in order to increase legitimacy and to better assess and adapt to local market peculiarities, thus granting the subsidiary more autonomy (Gaur et al., 2007; Jarillo and Martinez, 1990). This way, subsidiaries are better able to respond to local market needs which exerts positive effects on the subsidiary’s performance (Gammelgaard et al., 2012).
When expatriates are sent to foreign subsidiaries, however, there are certain tactics the expatriates and HQ can use to facilitate communication within subsidiaries that are affected by language- and culture-based barriers. To this end, expatriate subsidiary CEOs may participate actively in daily operations by serving a dual role as CEO and as a functional manager. Thereby, they can increase the frequency of interactions with local employees which improves knowledge sharing as well as decision making (Peltokorpi, 2007). Moreover, German firms, for instance, could hire German nationals living in the host country as they are familiar with the local language as well as cultural habits. They can hence serve as linking pins between expatriates and local employees easing communication over hierarchies and supporting information sharing. More direct interactions unfold, of course, when expatriates are fluent or almost fluent in the host country language which is considered the most promising way in overcoming language and culture induced barriers (Du-Babcock and Babcock, 1996; Peltokorpi, 2010). It is, however, important to note that superior host country language skills also raise expectations regarding culturally congruent behavior which also puts emphasis on an adequate cultural training for potential expatriates (Peltokorpi, 2010). Besides that, expatriate subsidiary CEOs can be sensitive to morales by simply observing their employees. Here, paying attention to interactions among employees and body language can reveal important information on current developments or potential conflicts in the workforce (Peltokorpi, 2007).

5 Recommendation #4: Take Full Control over Foreign Activities to Succeed

When firms internationalize, the ownership decision is of crucial importance as it determines the firm’s risk exposure, learning opportunities, resource commitments, and amount of control (Barkema et al., 1996; Tihanyi et al., 2005). Here, internationalizing firms decide whether they establish a 100%-owned subsidiary or share activities with at least one partner to establish a JV abroad (Dikova and van Witteloostuijn, 2007). Internationalizing firms are entities that create, transform, and transfer knowledge which is particularly challenging when it happens across geographical borders and even more difficult when additional barriers, such as language barriers, affect this transfer (Kogut and Zander, 1993; Pérez-Nordtvedt et al., 2008). Therefore, firms have to carefully assess which entry mode to choose as both WOSs and JVs come with different characteristics in terms of communication requirements and
processes which influence the ease of knowledge exchange and gain particular pertinence in the presence of language barriers.

The sample of German firms we recently studied underlines the interplay of entry mode, language barrier, and subsidiary performance. When language barriers are high, it seems to be particularly promising for internationalizing firms to enter foreign countries with a WOS. Our research indicates that subsidiaries located in countries that are linguistically very different to Germany show a statistically significantly inferior performance (2.75 on a 5-point Likert scale) when they are jointly owned by multiple partners compared to those subsidiaries of which one parent company owns 100 percent of the shares (performance value of 3.42) (Table D – 4). The potential of this entry mode strategy to overcome language barriers is especially noteworthy as our findings illustrate no significant performance differences when subsidiaries are affected by high levels of any of the other barriers under the psychic distance term.

Table D – 4: Performance Differences of German Firms’ Subsidiaries Depending on the Choice between Wholly-Owned Subsidiary and Joint Venture

<table>
<thead>
<tr>
<th>WOS vs. JV / Differences in...</th>
<th>Full sample</th>
<th>Low barriers</th>
<th>High barriers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>WOS</td>
<td>JV</td>
<td>Sign.</td>
</tr>
<tr>
<td>3.37</td>
<td>3.07</td>
<td>p = 0.073</td>
<td></td>
</tr>
<tr>
<td>Psychic Distance</td>
<td>3.37</td>
<td>3.00</td>
<td>p = 0.080</td>
</tr>
<tr>
<td>Industrial development</td>
<td>3.33</td>
<td>3.08</td>
<td>p = 0.178</td>
</tr>
<tr>
<td>Culture</td>
<td>3.33</td>
<td>3.12</td>
<td>p = 0.239</td>
</tr>
<tr>
<td>Business practices</td>
<td>3.41</td>
<td>3.09</td>
<td>p = 0.101</td>
</tr>
<tr>
<td>Language</td>
<td>3.29</td>
<td>2.83</td>
<td>p = 0.058</td>
</tr>
<tr>
<td>Education</td>
<td>3.38</td>
<td>2.88</td>
<td>p = 0.042</td>
</tr>
</tbody>
</table>

The advantageousness of WOSs in linguistically different circumstances might be based on the lower need for coordination in that kind of international venture. HQs can straightforwardly implement
practices and processes in WOSs that mirror those from the parent company which eases communication and coordination requirements (Hill et al., 1990; Kim and Hwang, 1992; Shenkar and Zeira, 1987).

For example, Sino-foreign JVs need to implement cross-functional processes and integrate resources between the joint venture partners in the course of their establishment (Eisenhardt and Brown, 1998; Grant, 1996). This integration, however, requires coordination between Chinese and foreign JV partners. For these coordination processes to unfold, JV parties need to engage in intensive formal and informal communication which is particularly challenging and time-consuming due to language barriers and which makes, especially in the case of China, close social interactions necessary (Fang and Zou, 2009). Such close ties, the so called guanxi, however, are difficult to build for Western managers because social interactions in China are based on latent expectations (Brewster et al., 2005; Selmer, 2006). Guanxi, which also means being part of an in-group, is said to have crucial impact on business success in China (Li et al., 1999; Xin and Pearce, 1996). Becoming part of an in-group is difficult in international JVs as, for example, their top managers represent their respective parent firms leading to subgroups within JV management teams among which interactions are reduced (Li et al., 1999). For instance, although the JV between the French food-product company Danone and the Chinese beverage producer Wahaha was labeled a “showcase” venture after it was set up in 1996, quickly thereafter the collaboration between the JV partners was characterized by severe dispute and tedious lawsuits, eventually leading Danone to exit the venture in 2009 (Waldemir, 2009). Among other factors, the low involvement Danone had in the joint venture’s operation resulted in only sporadic interactions and communication between the partner firms’ employees which, in turn, prevented the creation of trust and collaborative behavior expediting the venture’s failure. This again, points to the importance of constant exchange and communication among JV partners to build up trust and to maintain control over decision-making (Lee and Tan, 2009). These challenges are even aggravated by language barriers making it almost impossible for Western managers to join such guanxi networks hampering the development and performance of international JVs (Li et al., 1999; Tsang, 1998).

In addition to that, also knowledge transfer and assimilation is more complicated in JVs than in WOSs when the language barrier between foreign managers and local staff is high (Buckley et al., 2005). Decision-makers should therefore be once more aware that the process of exchanging knowledge, and
thus organizational learning, depends vitally on sufficient language skills. Operating a WOS allows the parent firm to use its full control to directly address this language issue and implement adequate measures, such as language training, to cope with it. JVs, however, require lengthy discussions and coordination processes among the parties until they reach a compromise on how to increase language skills (Buckley et al., 2005).

6 Recommendation #5: Engage in Acquisitions to Ensure Smooth Communication in the Foreign Market

Another choice in addition to the decision whether to invest in a WOS or a JV is the choice between acquiring an already existing company in the host country or building up a new subsidiary from scratch by means of a greenfield investment, the so-called establishment mode choice (Brouthers and Hennart, 2007; Hennart and Slangen, 2015a). Acquisitions, on the one hand, offer the advantage that they allow a relatively quick market entry as they enable leveraging already existing relationships to customers, suppliers, local institutions, and other stakeholders in the host country (Brouthers and Brouthers, 2000; Elango, 2005). Investing firms can also tap into new knowledge by acquiring foreign entities enlarging the existing knowledge base of the firm and facilitating knowledge exchange within the corporate network (Gupta and Govindarajan, 2000; Hennart and Park, 1993). Acquired local firms, however, come with existing structures, corporate cultures as well as a culturally and organizationally embedded workforce exacerbating the integration of the acquired company (Brouthers and Brouthers, 2000). This workforce might also have in large parts a different mother tongue than managers from the investing firm and probably certain skills in foreign languages which might complicate communication when these languages are very different and language proficiencies are relatively low.

By investing in greenfield ventures, on the other hand, firms can replicate structures, processes or technology from the home country in the host country which creates beneficial interrelationships across countries and enables a relatively straightforward integration of the new venture (Elango, 2005; Porter, 1985). Moreover, greenfield investments allow to carefully hire employees who fit the skill profile set for the new subsidiary (Drogendijk and Slangen, 2006). Decision makers can therefore also include
necessary language skills into subsidiary employees’ qualification requirements benefiting the communication between local and home country managers.

Our research among German multinational firms indicates that acquired subsidiaries perform better under conditions of high language barriers than greenfield investments. While German managers in our survey rated greenfield performance at 3.30 (on a 5-point Likert scale) when language barriers were considered high, managers perceived a significantly better performance of acquired subsidiaries indicated by a performance value of 3.79 (Table D – 5).

Table D – 5: Performance Differences of German Firms’ Subsidiaries Depending on the Choice between Acquisition and Greenfield Investment

<table>
<thead>
<tr>
<th>ACQ vs. GF / Differences in…</th>
<th>Full sample</th>
<th>Low barriers</th>
<th>High barriers</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACQ</td>
<td>ACQ</td>
<td>ACQ</td>
<td>ACQ</td>
</tr>
<tr>
<td>GF</td>
<td>GF</td>
<td>GF</td>
<td>GF</td>
</tr>
<tr>
<td>3.53</td>
<td>3.32</td>
<td>3.53</td>
<td>3.32</td>
</tr>
<tr>
<td>Psychic Distance</td>
<td>3.62</td>
<td>3.26</td>
<td>p = 0.065</td>
</tr>
<tr>
<td>Industrial development</td>
<td>3.58</td>
<td>3.22</td>
<td>p = 0.190</td>
</tr>
<tr>
<td>Culture</td>
<td>3.54</td>
<td>3.22</td>
<td>p = 0.106</td>
</tr>
<tr>
<td>Business practices</td>
<td>3.63</td>
<td>3.29</td>
<td>p = 0.089</td>
</tr>
<tr>
<td>Language</td>
<td>3.43</td>
<td>2.25</td>
<td>p = 0.467</td>
</tr>
<tr>
<td>Education</td>
<td>3.54</td>
<td>3.30</td>
<td>p = 0.341</td>
</tr>
</tbody>
</table>

When firms enter a foreign country, especially when they have no prior experience in that particular country, they need to build relationships with local stakeholders in order to get access to necessary resources and information about markets and trends (Zahra et al., 2000). This in turn requires intensive interactions between the firm and local partners (Zahra et al., 2000). Language barriers, however, hamper communication efforts between the newly entered firm and host-country stakeholders which exacerbates relationship building. Against this background, firms seem to benefit from the acquisition of already existing local companies when entering linguistically distant markets as they come with an
already existing customer base, trusted suppliers, and locally experienced managers (Brouthers and Brouthers, 2000; Elango, 2005). Thereby, subsidiaries profit more from a functioning external communication with local stakeholders than from an efficient internal communication with HQ. In this regard, especially the access to local customers by relying on already established brands might be of particular importance, a factor which is also considered to be a vital motivation for China-based San’an Optoelectronics Co. Ltd. to bid for German lightning products company Osram (Weiss, 2016). Here, our findings resemble the positive performance effect we find for locally staffed subsidiaries (opposed to the use of expatriates) which also put emphasis on strong ties to local stakeholders having priority over smooth internal communication with HQ.

7 Conclusion

The successful internationalization of firms can be affected by a plethora of obstacles – be it cultural differences between a firm’s home and a host country, differences in business practices or mere geographic distance, just to name a few. Extant research findings, our own research as well as managers around the globe can tell exhaustively about the difficulties that go along with starting or extending international business. Despite its practical salience, one internationalization impediment, however, has long been overlooked in international business research: the language barrier.

Based on a recent survey among German international companies, however, we establish that this language barrier represents the most serious hurdle for firms engaging in international business activities. Hence, we reiterate the importance of effective and efficient (cross-border) communication between domestic HQ and foreign subsidiaries as well as within firms for the success of multinational companies. In order to overcome this barrier and to reduce difficulties in the communication process some strategic actions have proven more successful than others. Having looked at firms’ important strategic decisions with regards to language standardization, expatriation and entry modes, we find that managers can actively shape communication processes and requirements necessary to cope with challenges arising from language barriers. In this regard, managers should, first, prefer the implementation of a common corporate language over an unbridled multilingualism in their firms. Second, managers should draw on host country nationals or linguistically skilled third country nationals
to staff their foreign subsidiaries instead of using home country expatriates. Third, when confronted with the question of how to enter a foreign country, managers should choose WOSs and acquisitions over JVs and greenfield investments respectively, when language barriers are high.
E  Concluding Remarks

1  Core Results and Contributions

This dissertation takes up central issues related to a firm’s internationalization, focusing on the critical strategic choices of how to enter foreign countries and how to staff newly established subsidiaries in these countries. Although research in these areas has a long tradition, this dissertation contributes by deepening our theoretical understanding of these decisions, by integrating into the literature developing topics that highlight the complexity of a firm’s international expansion, and by deriving implications that may prove beneficial for practitioners in managing the challenges associated with conducting business abroad.

In particular, a firm’s establishment mode choice is a critical and much-debated strategic decision in international business (Dow and Larimo, 2011). Despite the centrality of a firm’s resources in that decision (Dikova and Broughers, 2015), the extant literature lacks a theoretical framework that explains the exact connection between a firm’s resource base and the choice between a greenfield investment and an acquisition as the mode of entry. Based on the first meta-analysis in the specific field of establishment mode choice, the present research aggregates existing empirical findings and adapts resource-based theory to that choice in order to develop such a theoretical framework. The first study of this dissertation, hence, investigates two types of resources – experience-based and knowledge-based – and finds that the more knowledge-based resources a firm possesses, the more likely it is to enter a foreign country by means of greenfield investment, while experience-based resources increase a firm’s propensity to choose an acquisition. Further, in an attempt to advance the RBV, the study includes the cultural distance between the home country and the host country as a moderating factor to contextualize the predictions of that theoretical perspective, finding that cultural distance increases the likelihood that knowledge-intensive firms will opt for greenfield investments.

A firm’s global staffing decisions are also of paramount importance, as they determine the relationship between the firm and its foreign subsidiary (Collings et al., 2008). Although the exchange of knowledge and effective coordination are central elements in such a relationship, the extant research neglects the
communication processes that facilitate these elements and affect the decision concerning how to staff a subsidiary. The second study, therefore, takes a communication-based perspective and draws on three types of communication barriers to explain why firms use PCNs, HCNs, or TCNs as subsidiaries’ CEOs. Analyzing a sample of internationalizing German firms and applying binary logistic regressions, the study establishes that the staffing approaches firms use depend on the type of barrier they face. Hence, the higher the foreign language barrier, the more likely firms are to employ PCN expatriates to establish knowledge transfer and coordination processes. In contrast, when the geographic distance is large, firms opt for an HCN or a TCN to head the subsidiary. However, the native language barrier does not significantly affect the staffing decision. The study also incorporates a firm’s international experience as a contextual factor, as it may influence a firm’s requirements for coordinating the subsidiary and its ability to transfer knowledge (Erramilli, 1991; Kogut and Zander, 1993). The results largely confirm the moderating role of international experience in the focal relationships and, thus, highlight the complexity of staffing decisions in an international environment.

Language barriers are not only a fruitful subject of study for researchers who seek to understand these barriers’ effects on firms’ strategic decisions; they are also pertinent to practitioners who deal with internationalizing their firms’ businesses, because language barriers can hamper a firm’s ability to seize business opportunities (Hagen, 2011; Noguer and Siscart, 2003). This dissertation’s third study validates for a sample of German firms that the language barrier is perhaps the most important barrier to internationalization, compared to the other dimensions of the psychic distance concept. Based on this notion, the study finds that some strategic decisions firms make in managing internationalization are associated with better subsidiary performance under conditions of high linguistic dissimilarities than others are. Hence, the implementation of a common corporate language for a firm’s internal communication, the use of wholly-owned subsidiaries (compared to joint ventures), and the use of acquisitive market entries (compared to greenfield investments) go hand in hand with a significantly better subsidiary performance when these subsidiaries operate in linguistically different environments. However, compared to expatriates, subsidiary CEOs from the local country or a third country have a more positive effect on performance when the language barrier is high. Against the background that other empirical findings of this dissertation point to the usefulness of expatriates in overcoming language
barriers, this result reflects and even enriches the global staffing literature’s debate on the advantageousness of sending PCNs abroad.

2 Managerial Implications

Based on the findings of its three studies, this dissertation offers practical implications for managers who are charged with planning and executing their firms’ international expansion. The first study indicates that practitioners should have a clear understanding of the resources their company possesses or seeks, as different types of resources have different implications for the choice of establishment mode. Whereas knowledge-intensive firms might protect their knowledge by engaging in greenfield investments, firms with extensive prior experience in the international context might prefer to leverage this experience through acquisitions. Therefore, it could prove useful for internationalizing managers to have an overview of broader categories of resources but also to be aware of their firms’ stock of or need for certain kinds of specific resources, as these resource sub-dimensions may exert differentiated effects on the establishment mode choice. Additionally, the study establishes that the cultural distance between the home country and the host country moderates the relationship between resources and the choice of establishment mode. Therefore, practitioners should be aware that, particularly where knowledge resources are concerned, firms’ need to protect those resources may increase when cultural distance is high because cultural distance increases unfamiliarity with the local market. In such cases, greenfield investments may provide better means of protection.

The second study of this dissertation suggests that, in order to facilitate communication between HQ and a subsidiary, managers should consider that different communication barriers require different staffing strategies, as barriers based on language differences differ from those based on geographic distance. In terms of language barriers, managers should take local employees’ foreign language skills into account, as communication between HQ and its foreign subsidiary tends to unfold mostly in English, which may not be the host country’s language. However, geographic distance may require other considerations, such as those related to time zone differences and staffing costs, which may suggest preferences for HCNs or TCNs instead of expatriates, who may be better at establishing communication between HQ and the foreign subsidiary across foreign language barriers. Managers should be also aware
that the prior international experience a firm has provides it with resources like linguistically and culturally skilled employees and market entry knowledge that can be used for internationalization. This experience alters how communication barriers affect staffing decisions, so managers must consider a broad range of firm and country characteristics if they are to make effective staffing decisions.

The third study suggests that managers can draw on a variety of strategies to overcome language barriers. For example, they might prefer to introduce a common corporate language that standardizes a firm’s approach to internal communication and documentation. As many practical examples already show (Horovitz and Ohlsson-Corboz, 2007), implementing an official shared language offers the advantages of fewer misunderstandings and improved information exchange. In addition, in terms of decisions related to entry mode, practitioners might choose to enter foreign countries with wholly-owned subsidiaries and by conducting acquisitions. The study’s findings indicate that these approaches reduce the requirements for communication with partners across language barriers and improve communication with local stakeholders, thereby improving the subsidiary’s performance. Although this study also establishes that many firms use expatriates as subsidiary CEOs, managers might take into account that the employment of PCNs in foreign subsidiaries can create new language-based challenges, particularly with regard to communication between the PCN expatriates and local staff. Therefore, they should consider hiring HCNs or TCNs to avoid these additional challenges.

3 Future Research Implications

Based on the empirical analyses performed in the three studies, this dissertation helps to clarify the central strategic decisions a firm makes to manage internationalization and the barriers it has to overcome in doing so. As is the case with all research, these studies have limitations that pave the way for future research.

This dissertation is based on a sample of published and unpublished articles on the establishment mode choice, which were aggregated for the first study, and on a sample of German multinational firms, which provides the basis for the second and third study. Both samples are relatively small, leaving room for expanded investigation of the relationship between types of resources and a firm’s establishment mode choice. A larger empirical database could be used in future qualitative or quantitative reviews to study
a broader variety of resource types and their sub-categories, allowing for a more comprehensive analysis of the role resources play in the establishment mode choice. Future research could also collect larger samples of primary data from countries other than Germany to examine the impact of language and communication barriers on a firm’s staffing decisions and beyond. Using a larger and more diverse data set would increase the statistical rigor of related analyses and improve the findings’ generalizability.

Future scholarly inquiry might also draw a more differentiated picture of the influence resources have on the choice of establishment mode and the relationship between communication barriers and a firm’s strategies related to subsidiary staffing. In addition to a larger variety of resource types, scholars in the field of establishment mode might consider other contextual factors that moderate the relationship between resources and the establishment mode choice. While this dissertation’s first study incorporates cultural distance as an important source of information deficits, there may be other factors that exert the same effect and mechanisms other than information deficits that alter the focal relationships (cf. Dikova and Brouthers, 2015). Moreover, future research could shed more light on the interconnections between communication barriers. The extant literature supports the conclusion that managing one type of language barrier can create or exacerbate another type of language barrier, depending on the use of languages or employees’ language skills (Hinds et al., 2014; Piekkari et al., 2005). Therefore, scholars could investigate how, for instance, native language barriers and foreign language barriers interact in the context of foreign subsidiary staffing and beyond. In addition, given that the effects of geographic distance on staffing decisions have been inconclusive in prior literature (Abdellatif et al., 2010; Beddi and Mayrhofer, 2013), disentangling this construct into sub-components could be worthwhile.

With regard to the theoretical foundation of the relationship between communication barriers and subsidiary staffing, future research might apply established theories that provide a consistent framework with which to explain the mechanisms that lead to the use of either expatriates or local employees in linguistically distant subsidiaries. Following Slangen (2011), the rationale developed in this dissertation is based on communication-based reasoning. However, other studies in the expatriate staffing literature draw on institutional theory or agency theory as established frameworks when arguing for the impact of other distances between the home and the host country (Gaur et al., 2007; Gong, 2003). Zhang and Peltokorpi (2016) and Harzing and Feely (2008), moreover, use social identity theory to ground their
research on language proficiency and expatriate adjustment and on language barriers in the HQ – subsidiary relationship, respectively. Hence, future research might develop a theoretical framework or adapt existing theories to the choice between expatriates and local employees as subsidiaries’ CEOs to work out the underlying mechanisms and clarify this critical strategic decision in the context of language and communication barriers. Beyond that, scholars might advance theory on language in broader terms to reflect on its central role in international business (Brannen et al., 2014).
F References


References


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References


Pérez, J. B. and Pla-Barber, J. (2005). 'When are international managers a cost effective solution? The rationale of transaction cost economics applied to staffing decisions in MNCs'. *Journal of Business Research, 58*(10), 1320-29.


Scholz, G. 2013. 'Expatriates: Entsendung ohne Entfremdung - das Bosch-Rezept'. *Automobilwoche. Oberpfaffenhofen: Crain Communications GmbH.*


Waldemir, P. 2009. 'Danone to quit joint venture with Wahaha'. The Financial Times.


### Teil 1: Allgemeine Informationen zu Ihrer Person und zum Unternehmen

1. Bitte beantworten Sie folgende Frage zu Ihrer Person.

Welche Position haben Sie derzeit in Ihrem Unternehmen?

<table>
<thead>
<tr>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

2. Bitte beantworten Sie die nachfolgenden Fragen zu Ihrem Unternehmen.

<table>
<thead>
<tr>
<th>Frage</th>
<th>Antwort</th>
</tr>
</thead>
<tbody>
<tr>
<td>In welchem Jahr wurde Ihr Unternehmen <strong>gegründet</strong>?</td>
<td>_______ (Jahr, z.B. 1990)</td>
</tr>
<tr>
<td>Wie viele Mitarbeiter (<strong>Vollzeit</strong>) beschäftigte Ihr Unternehmen im vergangenen Geschäftsjahr (2013) <strong>weltweit</strong>?</td>
<td>_______ (Anzahl Mitarbeiter, z.B. 100)</td>
</tr>
<tr>
<td>Zu wie viel Prozent ist Ihr Unternehmen in <strong>Familienbesitz</strong>?</td>
<td>_______ (In Prozent, z.B. 60)</td>
</tr>
<tr>
<td>Ist Ihr Unternehmen <strong>inhärendgeführt</strong>?</td>
<td>Ja/Nein</td>
</tr>
<tr>
<td>Handelt es sich bei Ihrem Unternehmen eher um ein Unternehmen aus dem produzierenden Gewerbe oder eher um ein Service-Unternehmen?</td>
<td>Produzierendes Gewerbe/Service</td>
</tr>
<tr>
<td>Ist Ihr Unternehmen ein „<strong>High-tech</strong>“-Unternehmen?</td>
<td>Ja/Nein</td>
</tr>
<tr>
<td>In welcher <strong>Branche</strong> ist Ihr Unternehmen hauptsächlich tätig?</td>
<td></td>
</tr>
<tr>
<td>Wie hoch waren die <strong>Ausgaben für Forschung und Entwicklung</strong> im vergangenen Geschäftsjahr (2013) im Verhältnis zum Umsatz?</td>
<td>_______ (In Prozent, z.B. 10)</td>
</tr>
<tr>
<td>Wie zufrieden sind Sie mit dem <strong>Erfolg Ihres Unternehmens</strong> über die vergangenen drei Jahre im Vergleich zu Ihren Wettbewerbern?</td>
<td>Sehr unzufrieden</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Frage</th>
<th>Antwort</th>
</tr>
</thead>
<tbody>
<tr>
<td>In wie vielen unterschiedlichen Ländern (Auslandsmärkten) ist Ihr Unternehmen derzeit aktiv?</td>
<td>_______ (Anzahl Länder, z.B. 10)</td>
</tr>
<tr>
<td>Wie hoch war 2013 der Anteil der Umsätze aus der Auslandstätigkeit am Gesamtumsatz?</td>
<td>_______ (In Prozent, z.B. 20)</td>
</tr>
</tbody>
</table>

### Teil 2: Fragen zu dem letzten direkteinvestiven Auslandsengagement Ihres Unternehmens

**Hinweis:** Im Folgenden werden Fragen zu dem zuletzt zurückliegenden direkteinvestiven internationalen **Markteintritt** Ihres Unternehmens gestellt. Unter direkteinvestiven Markteintritten verstehen wir solche, die Sie mittels

- Mehrheits-Joint-Venture (Beteiligung > 50%),
- Mehrheitsbeteiligung an einem bestehenden Unternehmen (Beteiligung > 50%),
- Komplettübernahme eines bestehenden Unternehmens
- Neugründung einer eigenen Tochtergesellschaft (mit oder ohne Produktion)

durchgeführt haben.

<table>
<thead>
<tr>
<th>Frage</th>
<th>Antwort</th>
</tr>
</thead>
<tbody>
<tr>
<td>In welchem Land haben Sie diese zuletzt zurückliegende Direktinvestition getätigt?</td>
<td>_______ (Land, z.B. Frankreich)</td>
</tr>
<tr>
<td>In welcher Stadt dieses Landes wurde die Investition getätigt?</td>
<td>_______ (Stadt, z.B. Bordeaux)</td>
</tr>
<tr>
<td>In welchem Jahr fand dieser letzte direkteinvestive internationale Markteintritt statt?</td>
<td>_______ (Jahr, z.B. 2008)</td>
</tr>
<tr>
<td>Wie viele Mitarbeiter (<strong>Vollzeit</strong>) beschäftigten Sie in dem bei diesem Markteintritt entstandenen Tochterunternehmen im vergangenen Geschäftsjahr (2013)?</td>
<td>_______ (Anzahl Mitarbeiter, z.B. 50)</td>
</tr>
</tbody>
</table>
5. Welche Markteintrittsform wurde im Rahmen des letzten direkteinvestiven internationalen Markteintritts gewählt? (Bitte kreuzen Sie eine der Markteintrittsformen an.)

<table>
<thead>
<tr>
<th>Markteintrittsform</th>
<th>Komplettübernahme eines bestehenden Unternehmens</th>
<th>Gründung eigener Tochtergesellschaft (ohne Produktion)</th>
<th>Gründung eigener Tochtergesellschaft (mit Produktion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Venture</td>
<td>(Neugründung mit einem Partner) mit einer Beteiligung von &gt; 50% Mehrheitsbeteiligung an einem bestehenden Unternehmen (Beteiligung &gt; 50%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Erfolgsdimension</th>
<th>Sehr unzufrieden</th>
<th>Sehr zufrieden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mit dem Wachstum des Umsatzes in dem zuletzt erschlossenen Auslandsmarkt bin ich…</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Mit der Höhe des Umsatzes in dem zuletzt erschlossenen Auslandsmarkt bin ich…</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Mit dem (Vorsteuer-)Gewinn in dem zuletzt erschlossenen Auslandsmarkt bin ich…</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Mit dem Marktanteil in dem zuletzt erschlossenen Auslandsmarkt bin ich…</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Mit den Marketing-Aktivitäten in dem zuletzt erschlossenen Auslandsmarkt bin ich…</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Mit der Leistungsfähigkeit der Distribution in dem zuletzt erschlossenen Auslandsmarkt bin ich…</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Mit der Reputation unseres Unternehmens in dem zuletzt erschlossenen Auslandsmarkt bin ich…</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Mit der Erhöhung der Kundenzufriedenheit in dem zuletzt erschlossenen Auslandsmarkt bin ich…</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

7. Nur im Falle von Mehrheitsbeteiligung oder Komplettübernahme: Die nachfolgende Frage bezieht sich auf die Nationalität des höchsten Verantwortlichen (bspw. Geschäftsführer) in der zuletzt direkteinvestiven entstandenen Auslandsgesellschaft. (Falls Sie die Auslandsgesellschaft neu gegründet haben, fahren Sie bitte mit Frage 8 fort.)

<table>
<thead>
<tr>
<th>Nationalität</th>
<th>Deutsch</th>
<th>Nationalität des zuletzt erschlossenen Landes</th>
<th>Andere Nationalität und zwar:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welche Nationalität hatte der vorhandene höchste Verantwortliche des akquirierten Unternehmens in dem zuletzt erschlossenen Auslandsmarkt zum Zeitpunkt der Beteiligung bzw. Übernahme des Unternehmens?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Nationalität</th>
<th>Bei Beteiligung oder Übernahme: Der höchste Verantwortliche war der gleiche wie zum Zeitpunkt der Beteiligung / Übernahme Deutsch Nationalität des zuletzt erschlossenen Landes Andere Nationalität und zwar:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welche Nationalität hatte der höchste Verantwortliche unmittelbar nach der Beteiligung, Übernahme bzw. Eröffnung der Tochtergesellschaft in dem zuletzt erschlossenen Auslandsmarkt?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nationalität</th>
<th>Der höchste Verantwortliche ist der gleiche wie unmittelbar nach Beteiligung / Übernahme / Eröffnung Deutsch Nationalität des zuletzt erschlossenen Landes Andere Nationalität und zwar:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welche Nationalität hat der höchste Verantwortliche in der Tochtergesellschaft des zuletzt erschlossenen Auslandsmarkts zum jetzigen Zeitpunkt?</td>
<td></td>
</tr>
</tbody>
</table>
9. Die nachfolgenden Fragen beziehen sich auf die Nutzung von Expatriates bei dem zuletzt zurückliegenden direktdirektinvestiven internationalen Markteintritt. (Falls Sie keine Expatriates einsetzen, geben Sie bitte 0 an und fahren mit Frage 11 fort.)

| Wie hoch ist der Anteil von Expatriates innerhalb der Geschäftsführung der zuletzt direktdirektinvestiv entstandenen Auslandsgesellschaft? | _______ (In Prozent, z.B. 20) |
| Wie hoch ist der Anteil von Expatriates an der Gesamtbelegschaft der zuletzt direktdirektinvestiv entstandenen Auslandsgesellschaft? | _______ (In Prozent, z.B. 5) |

10. Wie bedeutend waren die folgenden Motive für den Einsatz von Expatriates bei dem zuletzt zurückliegenden direktdirektinvestiven internationalen Markteintritt?

| Verbeserung der Kommunikation mit der Auslandsgesellschaft | Sehr unbedeutend | Sehr bedeutend |
| Wissentransfer zwischen Auslands- und Muttergesellschaft | 1 2 3 4 5 |
| Personalentwicklung des entsandten Mitarbeiters | 1 2 3 4 5 |
| Sicherstellung, dass die Auslandsgesellschaft gemäß den Richtlinien der Muttergesellschaft operiert | 1 2 3 4 5 |
| Sicherstellung, dass innerhalb des gesamten Unternehmens eine homogene Unternehmenskultur herrscht | 1 2 3 4 5 |

11. In welchem Ausmaß transferiert Ihr Unternehmen Wissen und Fähigkeiten zu der zuletzt direktdirektinvestiv entstandenen Auslandsgesellschaft in den folgenden Bereichen?

| Marketing | Sehr geringes Ausmaß | Sehr hohes Ausmaß |
| Distribution | 1 2 3 4 5 |
| Design von Produkten oder Dienstleistungen | 1 2 3 4 5 |
| Managementsysteme und -praktiken | 1 2 3 4 5 |
| Technologie | 1 2 3 4 5 |

12. In welchem Ausmaß erhält Ihr Unternehmen Wissen und Fähigkeiten von der zuletzt direktdirektinvestiv entstandenen Auslandsgesellschaft in den folgenden Bereichen?

| Marketing | Sehr geringes Ausmaß | Sehr hohes Ausmaß |
| Distribution | 1 2 3 4 5 |
| Design von Produkten oder Dienstleistungen | 1 2 3 4 5 |
| Managementsysteme und -praktiken | 1 2 3 4 5 |
| Technologie | 1 2 3 4 5 |

13. Die folgenden Fragen beziehen sich auf die unternehmensweit verwendete Sprache innerhalb Ihres Unternehmens.

<p>| Haben Sie in Ihrem Unternehmen eine einheitliche Sprache für die unternehmensweite Kommunikation festgelegt? | Nein (falls nein, weiter mit Frage 14) Ja und zwar |
| Wie schätzen Sie die Kenntnisse dieser Sprache bei dem höchsten Verantwortlichen der zuletzt direktdirektinvestiv entstandenen Auslandsgesellschaft ein? | Sehr geringe Kenntnisse Ausgezeichnete Kenntnisse |
| Wie schätzen Sie die Kenntnisse dieser Sprache bei den Führungskräften der zuletzt direktdirektinvestiv entstandenen Auslandsgesellschaft ein? | 1 2 3 4 5 |
| Wie schätzen Sie die Kenntnisse dieser Sprache bei der Belegschaft der Auslandsgesellschaft ein? | 1 2 3 4 5 |
| Wie schätzen Sie die Kenntnisse dieser Sprache bei der Belegschaft der Muttergesellschaft ein? | 1 2 3 4 5 |
| Wie schätzen Sie die Kenntnisse dieser Sprache bei der Belegschaft der Muttergesellschaft ein? | 1 2 3 4 5 |</p>
<table>
<thead>
<tr>
<th>14. Wie schätzen Sie die Kenntnisse der…</th>
<th>Sehr geringe Kenntnisse</th>
<th>Ausgezeicnte Kenntnisse</th>
</tr>
</thead>
<tbody>
<tr>
<td>deutscher Sprache bei dem höchsten Verantwortlichen der zuletzt direktiv entstandenen Auslandsgesellschaft der zuletzt direktiv entstandenen Auslandsgesellschaft</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>deutscher Sprache bei den Führungskräften der zuletzt direktiv entstandenen Auslandsgesellschaft</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>deutscher Sprache bei der Belegschaft der zuletzt direktiv entstandenen Auslandsgesellschaft</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>(vorrangigen) Landessprache des zuletzt direktiv entstandenen Auslandsmarkts bei dem höchsten Verantwortlichen der Auslandsgesellschaft</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>(vorrangigen) Landessprache des zuletzt direktiv entstandenen Auslandsmarkts bei den Führungskräften der Auslandsgesellschaft</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>(vorrangigen) Landessprache des zuletzt direktiv entstandenen Auslandsmarkts bei dem höchsten Verantwortlichen der Muttergesellschaft</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>(vorrangigen) Landessprache des zuletzt direktiv entstandenen Auslandsmarkts bei den Führungskräften der Muttergesellschaft</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>englischer Sprache bei dem höchsten Verantwortlichen der zuletzt direktiv entstandenen Auslandsgesellschaft</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>englischer Sprache bei den Führungskräften der zuletzt direktiv entstandenen Auslandsgesellschaft</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>englischer Sprache bei der Belegschaft der zuletzt direktiv entstandenen Auslandsgesellschaft</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>englischer Sprache bei der Belegschaft der Muttergesellschaft</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>15. Bitte geben Sie die Häufigkeit an, mit der Führungskräfte aus der Muttergesellschaft persönlichen („face-to-face“) Kontakt mit Führungskräften aus der zuletzt direktiv entstandenen Tochtergesellschaft haben über…</th>
<th>Nie oder fast nie</th>
<th>Wöchentlich oder häufiger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geschäftsreisen zur Auslandsgesellschaft</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Mitarbeit in Komitees und Task Forces</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Teilnahme an Meetings und Konferenzen</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>16. Bitte geben Sie die Häufigkeit an, mit der Führungskräfte aus der Muttergesellschaft mit Führungskräften aus der zuletzt direktiv entstandenen Tochtergesellschaft kommunizieren via…</th>
<th>Nie oder fast nie</th>
<th>täglich</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telefon</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Voice over IP (VoIP) (bspw. Skype)</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Chat</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>E-Mail</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Formale Memos/Berichte</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

17. Die nachfolgende Frage bezieht sich auf die Beschaffung des Personals bei dem zuletzt zurückliegenden direktiviven internationalen Markteintritt.

Wie beschreiben Sie generell die Beschaffung des Personals für die Tochtergesellschaft in dem zuletzt erschlossenen Auslandsmarkt? (Bitte kreuzen Sie eine der Möglichkeiten an.)

Positionen in dem neu erschlossenen Auslandsmarkt werden zumeist mit Mitarbeitern aus der Muttergesellschaft besetzt.
Positionen in dem neu erschlossenen Auslandsmarkt werden zumeist mit Mitarbeitern aus dem neu erschlossenen Land besetzt.
Positionen in dem neu erschlossenen Auslandsmarkt werden zumeist mit Mitarbeitern aus der Region des neu erschlossenen Landes, also mit Menschen aus dem neuen Gastland oder aus Drittländern, besetzt.
Positionen in dem neu erschlossenen Auslandsmarkt werden zumeist mit Mitarbeitern unabhängig von deren Herkunft besetzt.
### 18. Wie bedeutend waren die folgenden Motive für den zuletzt zurückliegenden direkttinvestiven internationalen Markteintritt zum Zeitpunkt des Eintritts?

<table>
<thead>
<tr>
<th>Motiv</th>
<th>Sehr unbedeutend</th>
<th>Sehr bedeutend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Die Nutzung von Kostenvorteilen im Auslandsmarkt war...</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Die Erschließung von neuen Absatzmärkten für unsere Produkte war...</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Das Engagement eines/mehrerer unserer Kunden im Auslandsmarkt war...</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Das Engagement eines/mehrerer unserer Konkurrenten im Auslandsmarkt war...</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Der Zugang zu Wissen war...</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Der Zugang zu Rohstoffen war...</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Erfahrungen im neuen Markt zu sammeln war...</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Die Risikostreuung/-diversifikation war...</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

### 19. Inwieweit stimmen Sie folgenden Aussagen zu dem zuletzt von Ihrem Unternehmen direktinvestiv erschlossenen Auslandsmarkt zu?

<table>
<thead>
<tr>
<th>Aussage</th>
<th>Stimme gar nicht zu</th>
<th>Stimme voll zu</th>
</tr>
</thead>
<tbody>
<tr>
<td>Es wäre für uns sehr teuer, das bestehende Vertriebssystem im zuletzt erschlossenen Auslandsmarkt zu ändern.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Es wurden bedeutende Investitionen unternommen, die spezifisch an die Bedürfnisse dieses zuletzt erschlossenen Auslandsmarktes angepasst waren.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Unsere Produkte/Dienstleistungen und Technologien waren stark darauf ausgerichtet, die Anforderungen dieses zuletzt erschlossenen Auslandsmarktes zu erfüllen.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Das Potenzial unseres Unternehmens, neue und kreative Produkte oder Dienstleistungen im zuletzt erschlossenen Auslandsmarkt zu entwickeln, war überdurchschnittlich hoch.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Im Rahmen der Internationalisierung mussten wir einen deutlich größeren technologischen Aufwand betreiben als unsere Mitbewerber.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

### 20. Inwieweit stimmen Sie folgenden Aussagen zur internationalen Erfahrung Ihres Unternehmens zum Zeitpunkt des Eintritts in den zuletzt von Ihrem Unternehmen direktinvestiv erschlossenen Auslandsmarkt zu?

<table>
<thead>
<tr>
<th>Aussage</th>
<th>Stimme gar nicht zu</th>
<th>Stimme voll zu</th>
</tr>
</thead>
<tbody>
<tr>
<td>Das Top-Management unseres Unternehmens verfügte bereits über große internationale Erfahrung.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Unser Unternehmen hatte insgesamt bereits große internationale Erfahrung.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Unser Unternehmen hatte bereits große Erfahrung im Zielland.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Unser Unternehmen hatte bereits große Erfahrung in der Zielregion.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Unser Unternehmen hatte bereits große Erfahrung mit dem Aufbau von Tochtergesellschaften.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Unser Unternehmen hatte bereits große Erfahrung mit Unternehmensübernahmen.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Unser Unternehmen hatte bereits große Erfahrung mit Unternehmensbeteiligungen.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

### 21. Wie schätzen Sie die Unterschiede zwischen Deutschland und dem zuletzt erschlossenen Auslandsmarkt in den folgenden Bereichen ein?

<table>
<thead>
<tr>
<th>Bereich</th>
<th>Sehr geringe Unterschiede</th>
<th>Sehr große Unterschiede</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ökonomischer Entwicklungsstand</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Kultur</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Geschäftspraktiken</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Sprache</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Allgemeiner Bildungsstand</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>
22. Bitte geben Sie an, wie viel Autonomie Ihr Unternehmen der zuletzt direktinvestiv entstandenen Auslandsgesellschaft nach Ihrer Eröffnung zu geben beabsichtigte. Treffen Sie Ihre Wahl bitte anhand der folgenden Funktionen.

<table>
<thead>
<tr>
<th>Funktion</th>
<th>Sehr wenig Autonomie</th>
<th>Sehr viel Autonomie</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beschaffung</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Produkt-/Service-Design</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Forschung und Entwicklung</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Produktions-/Service-Prozess</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Gebrauch von Markennamen</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Preisgestaltung</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Werbung und Absatzförderung</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Kapitalbeschaffung</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Ausgestaltung des Vergütungssystems</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Arbeitsgestaltung</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Auswahl von Mitarbeitern</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>Training von Mitarbeitern</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>