CULTURAL DISTANCE AND THE PROCESS OF FIRM INTERNATIONALIZATION: A META-ANALYTIC REVIEW AND THEORETICAL IMPLICATIONS

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ABSTRACT

In this paper, we analyze the effects of cultural distance on the different stages of the firm internationalization process, including the strategic decisions on where to invest (location choice), how much to invest (amount), how to organize the foreign expansion (entry and establishment mode), and how to integrate the foreign subsidiary into the organization (transfer of practices). We also examine the performance effects of cultural distance distinguishing between outcomes at the subsidiary and firm level. Our extensive literature review and meta-analysis suggest that cultural distance is a relevant consideration for firms. Specifically, firms are less likely to expand to culturally distant locations and prefer to build the subsidiary internally through greenfield investment. We also find that cultural distance has a negative impact on subsidiary performance. We present our findings, discuss the main theoretical implications of our work and the questions it raises for future research, including how to improve the validity and reliability of cultural distance research in international business.

Key words: cultural distance; multinational companies; firm internationalization; meta-analysis; location choice; FDI; entry mode; establishment mode; transfer of practices; firm performance; subsidiary performance

INTRODUCTION

When internationalizing, firms are faced with several challenging and critical decisions such as where and how much to invest and how to organize and govern the foreign venture for maximizing benefits and minimizing risks and losses (Dunning & Lundan, 2008; Marano, Arregle, Hitt, Spadafora, & van Essen, 2016). Theories of internationalization that have tried to explain these processes and strategies have been at the core of the field of international business (Andersen, 1993; Johanson & Vahlne, 1977; Vernon, 1979). The fact that multinational corporations (MNCs) are operating across national borders makes them different from domestic firms not only in degree but also in kind, as it brings forth unique challenges and opportunities that need to be considered in managing these firms (Bartlett & Ghoshal, 1998; Hymer, 1976; Johanson & Vahlne, 1977; Westney & Zaheer, 2009). Central to this argument is the complex embeddedness of MNCs in multiple and different social contexts, which is mirrored in similarly complex management solutions (Kostova, Roth, & Dacin 2008; Kostova & Zaheer, 1999).

In their quest for understanding the essence of the cross-border condition and its impact on MNCs, international business scholars have introduced the concept of "distance" (i.e., difference between countries) and have applied it to theorize and empirically study a wide range of topics. Extant literature suggests that distance affects various organizational processes and outcomes in MNCs including location choices, entry mode, standardization of practices, transfer of knowledge, performance, and others (Johanson & Vahlne, 1977; Kogut & Singh, 1988; Kostova, 1999; Kostova & Zaheer, 1999; Tihanyi, Griffith, & Russell, 2005; Xu & Shenkar, 2002). The centrality of this condition to MNCs has led some to conclude that "essentially, international management *is* management of distance" (Zaheer, Schomaker, & Nachum, 2012: p. 19; italics in original).

Reflecting the different domains of contexts, scholars have studied different types of distance including geographic (e.g., Eden & Miller, 2004), economic, administrative (e.g., Ghemawat, 2001), institutional (e.g., Kostova, 1996; 1997; Kostova & Roth, 2002), linguistic (e.g., Dow & Karunaratna, 2006), or combinations of the above (Beugelsdijk, Nell & Ambos, 2017). Despite such proliferation, cultural distance, i.e., the difference in cultural values between two countries, remains the most widely used type of distance in the field of international business (Beugelsdijk & Mudambi, 2013; Shenkar, Luo, Yeheskel, 2008; Tihanyi et al., 2005). Cultural values are at the core of individual and firm behavior and shape distinct country-level organizational arrangements and patterns of behavior (Hofstede, 2001; House et al., 2004; Kirkman, Lowe & Gibson, 2006; Schwartz, 1994), which are considered essential for the study of many management outcomes. Cultural distance has been often measured with the index developed by Kogut and Singh (1988) as the statistical distance between national cultural values (usually based on Hofstede's 1980 framework). Although a number of scholars have criticized the literature on cultural distance with regard to both conceptual and empirical issues (most notably, Shenkar, 2001), this construct continues to be widely used as evidenced by the more than 5,000 citations of Kogut and Singh's original article, which is among the most cited in the field of management (Harzing & Pudelko, 2016).

Given the cross-border nature of firm internationalization, it comes as no surprise that cultural distance is often used to explain aspects of the process of firm internationalization. In a review of empirical research that assessed any of Hofstede's five cultural values (individualism-collectivism, power distance, uncertainty avoidance, masculinity-femininity, and long term orientation) and published in top tier management and applied psychology journals, Kirkman, Lowe and Gibson (2006) found that "most research examined the impact of cultural distance on organizational and country level outcomes" (p. 299). A more recent review of this literature similarly concludes that more than 80% of the articles on the role of national culture in the process of firm internationalization focuses on cultural distance (Lopez-Duarte, 2016).

Despite, or perhaps in light of, the vast amount of work on cultural distance and the process of firm internationalization, as well as the criticism that the cultural distance construct has received, we believe that there is a need for a critical assessment of the current state of this research. First, internationalization is an increasingly common strategy for all types of companies around the world and understanding the impact of cultural differences on the survival and success of these endeavors is vital. Furthermore, as a response to the growing competition in todays' global economy, Western companies are internationalizing at unprecedented levels often expanding to rather "distant" host countries including developing countries (e.g., South Africa) and emerging markets (e.g., India, China, Vietnam, Philippines). Emerging market firms are internationalizing to Western markets in a rather aggressive way as well (BCG, 2014; Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010; Guillén & García-Canal, 2009; Luo & Tung, 2007). In this context, it is important to revisit some of the original views that cultural distance is a deterrent in international expansion. Does cultural distance continue to be an important factor concerning internationalization decisions and does it matter what the home base of the firm is – developed or emerging market country? Second, our literature review suggests that with few exceptions, researchers tend to follow the "blanket" logic of negative effects of distance on internationalization and rarely provide an in-depth and nuanced explanation of the multifaceted impact of cultural distance on firm strategies. How does distance affect the different stages of the internationalization process? For example, is distance equally salient in both the pre- and post-expansion period? What types of outcomes associated with the process of firm internationalization are most affected by cultural distance? Third, as already alluded to, the cultural distance construct is not without criticism (Shenkar, 2001; Kirkman et al., 2006; Tung & Verbeke, 2010). Questions regarding operationalization and measurement of cultural distance have been continuously raised by the critics; for example, which cultural frameworks (e.g. Hofstede or Globe?) have the most meaningful impact on firm internationalization? Is there a difference between perceptual measures of cultural differences and measures based on "objective" data on values taken from cross cultural frameworks such as the ones developed by Hofstede and Globe? Does economic globalization lead to cultural convergence, and is the possible impact of cultural differences on the process of firm internationalization as relevant today as it was for example twenty-five years ago?

Accordingly, the objective of our paper is threefold: (a) take stock of the growing literature on cultural distance and the process of firm internationalization, (b) synthesize and analyze this literature identifying robust findings, and (c) develop new theoretical insights regarding the effects of cultural distance on the firm internationalization process. Such combined approach of review, analysis, and theory expansion is particularly important for areas of research that have experienced massive growth and may have produced inconsistent and inconclusive results like the field of internationalization research. Moving forward requires making sense of what has been already done in an informed and rigorous way, and laying out ideas about future research steps in this area of inquiry.

Our study seeks to make a distinct contribution based on the following approach. First and foremost, for a more comprehensive analysis, we employ a multi-dimensional conceptualization of the internationalization process. Unlike previous reviews that have focused on specific aspects of internationalization or have combined several aspects into one internationalization construct, we "unpack" the different stages of this process. By unpacking the process of firm internationalization in its different stages, we not only provide a state-of-the-art overview of the entire internationalization process, but also go beyond the existing meta-analytic reviews on cultural distance that have only addressed certain parts of this process (typically entry mode and performance) and not others (like location choice and transfer of practices). We distinguish between two main stages of the internationalization process. The pre-investment stage includes a set of strategic decisions concerning (a) location choice (Dunning & Lundan, 2008; Rugman & Verbeke, 2009), i.e., which host country to enter; (b) entry mode (e.g., Brouthers, 2002; Kogut & Singh, 1988), i.e., whether to enter through a joint venture (JV) or a wholly-owned investment (WOS); (c) establishment mode, i.e. whether to enter through acquisition (Acq) or greenfield (GF); (d) degree of ownership (e.g., Chan & Makino, 2007; Madsen, 2009), i.e., the size of the investment or the amount of capital invested, which reflect the level of commitment to the host country (Ghemawat, 1991). For the post-investment stage, we examine decisions concerning (a) the integration of the foreign operations through practice transfer from the parent company to the subsidiary (e.g., Sarala & Vaara, 2010; Slangen, 2011; Ahuja & Katila, 2001), and (b) performance results of internationalization at both subsidiary and firm level (e.g., Barkema, Bell, & Pennings, 1996).

Second, for a more rigorous review and analysis, we use a meta-analytic methodology (Duran et al., 2016). Pulling together a large number of independent studies of cultural distance effects on the various stages of the internationalization process allows us to assess the literature in a rigorous way and, based on that, to develop novel theoretical insights on the effects of cultural distance. Our analysis is comprehensive as we include different aspects of the internationalization process; it is also parsimonious because meta-analytical methodology helps identify the most critical dimensions for understanding the impact of cultural distance on the process of firm internationalization. In addition, this approach allows us to examine certain sample specific and time specific contingencies that could be viewed as boundary conditions of the underlying theoretical model, for example the measurement approach used for computing cultural distance and the source of the sample data – developed country versus emerging market MNCs.

We note that ours is the most comprehensive meta-analysis of the literature on cultural distance and internationalization to date. We have reviewed and coded a total of 156 papers published in a wide range of management and international business journals in the period 1988-2015. Our coding protocol is extensive, assessing both different stages of the process of firm internationalization and different approaches to conceptualizing and measuring cultural distance. Thus, our study goes beyond the six previous meta-analyses and adds significantly to the existing literature on cultural distance and internationalization (Magnusson, Baack, Zdravkovic, & Staub, 2008; Morschett, Schramm-Klein, & Swoboda, 2010; Reus & Rottig, 2009; Stahl & Voigt, 2008; Tihanyi et al., 2005; Zhao, Luo & Sug, 2004). The bigger and more diverse set of countries covered in our sample ensures greater variation of cultural values and level of economic development, which allows us to explicitly test many of the conjectures suggested by critics of the cultural distance literature (Shenkar, 2001; Tung & Verbeke, 2010). As we coded such a large number of cultural distance studies (156 studies in this study versus a range of 14 to 61 studies in these previous meta-analyses), we have the statistical power to cover the different stages of the entire process of firm internationalization and measure the outcomes in each stage in a more precise way.

The picture that emerges from our study is that cultural distance has a differential effect on the various stages of the internationalization process. It is a significant factor in the ex-ante decisions about location choice (a high cultural distance reduces the probability of investment in a country) and establishment mode (a high cultural distance is associated with firms preferring a greenfield and not an acquisition), but does not directly affect the degree of ownership invested. Regarding the post-investment stages of the internationalization process, cultural distance is associated with greater transfer of home country practices, most likely as a way to bring the parent company and the foreign subsidiary closer to each other. Interestingly, we find that cultural distance makes transfer of practices more difficult but firms that do so, benefit from it. Finally, the performance implications of cultural distance are also nuanced. It has a negative impact on subsidiary performance (consistent with the liability of foreignness argument), but has no effect or even a marginally positive effect on the performance of the whole MNC. We build on these findings to develop several theoretical insights regarding the role of cultural distance in the process of firm internationalization. In addition, we find that effects can depend on the exact way cultural distance is measured (Hofstede, Globe, Schwartz, or perceptual measures). We discuss empirical strategies to alleviate concerns related to how cultural distance can be measured.

The paper is organized as follows. We first discuss the construct of cultural distance, its conceptualization, measurement, and critique. Then we review the literature on the process of firm internationalization and the related strategic decisions such as locational choice, entry mode, ownership stake, and others. We discuss how cultural distance has been used as a predictor for each of these outcomes, and summarize key findings. Then we explain the meta-analytic techniques used, describe our data, and present the results of the study. We conclude with a discussion of main theoretical insights from our study and some practical suggestions on research design in this area.

CULTURAL DISTANCE AND FIRM INTERNATIONALIZATION

National Cultural Distance

Theoretically, the argument on the role of national cultural distance in firm internationalization is a core element of the "Uppsala Model" (Johanson & Vahlne, 1977) and can even be traced back to Beckerman (1956). As suggested, cultural distance, i.e., the difference between the cultures of the home and host countries, is an important consideration in internationalization strategies. When internationalizing, firms first expand to culturally and/or geographically close countries and move gradually - to culturally and geographically more distant countries, as they learn from their international experiences. Implicit here is the idea that cultural distance creates difficulties and challenges for firms due to lack of knowledge and understanding of how the host country works, as well as the perceived "foreignness" or "psychic distance" that creates barriers for collaboration and cooperation. Cultural distance affects all stages of the internationalization process including the pre-investment stage when the company has to make a decision whether to invest in a particular market, what entry mode to use, and how much to invest, as well as the post-investment stage when the decisions revolve around the degree of integration of the foreign location through common practices, as well as the performance outcomes of the international investment. Appendix A presents a set of quotes (at least one for each stage and associated strategic decisions of the internationalization process) that illustrate these effects. While the particular arguments about the impact of cultural distance vary by stage and decision, the overarching rationale is that cultural distance leads to higher complexity and costs of doing business abroad.

Empirically, cultural distance was first operationalized by Kogut and Singh, in their 1988 article where they used the construct to explain entry mode choice. Using Hofstede's multidimensional culture framework, Kogut and Singh (1988) introduced a Euclidean distance measure to capture cross-country cultural differences in one index. The Euclidean distance index takes the difference on the national score on each of Hofstede's cultural dimension (Hofstede, 2001), and then aggregates these differences in one overall index. Cultural distance is calculated as the distance to a single country at the time of entry. The vast majority of cultural distance studies follow this approach in operationalizing and measuring cultural distance (Kirkman et al., 2006; 2016). As seen in Figure 1, the number of cultural distance studies published in management journals has steadily increased since 1988.

[Insert Figure 1 about here]

Despite its proliferation, cultural distance research has been criticized on multiple grounds (Beugelsdijk, Kostova, & Roth, 2017; McSweeney, 2002; Shenkar, 2001, 2012; Tung & Verbeke, 2012): (a) an overly simplistic way of using the cultural distance construct in theory building - assuming equivalent (negative) effect of cultural distance on different organizational outcomes (location choice, entry and establishment mode, governance, performance); (b) ignoring important statistical properties of the index, for example, assuming uncorrelated cultural dimensions; and (c) using almost exclusively the possibly outdated Hofstede's data in computing the index of cultural distance. Finally, it has been suggested that distance effects are possibly conflated with level effects depending on the sample structure (Brouthers et al. 2016; Harzing & Pudelko, 2016; van Hoorn & Maseland, 2016). Cultural distance studies that include one home (host) and multiple host (home) countries may not be able to attribute the effect of cultural distance to cultural differences (and, in fact, find a level effect), depending on the absolute score of the single home (host) country on the cultural dimensions. Van Hoorn and Maseland (2016) show that this is particularly problematic for cultural distance studies using the U.S. as a reference country.

Adding to this growing literature, in this paper we examine the differential effects of cultural distance on various decisions related to the different stages of the internationalization process recognizing that these effects can differ in strength and also in terms of underlying theoretical explanations. Thus, we aim to address the critique that cultural distance has been used as a "blanket" "catch-all" treatment of country differences and the myopic view that it affects all phenomena of cross-border nature in a similar and negative way. In testing the relationship between cultural distance and location choice, entry and establishment mode, degree of ownership, transfer of practices, and performance, we take into account these critical observations.

The Process of Firm Internationalization

As depicted in Figure 2, the process of firm internationalization has been conceptualized as a set of several key decisions - on location (whether a company should invest into a particular host country), entry mode, how much it should invest; and how the foreign operation should be controlled and managed. These are strategically important decisions, and making a mistake in any of them can have a detrimental impact on performance, including a potential failure of the foreign operation altogether. Expanding the company's operations abroad is far more challenging than doing it in a domestic setting. Abroad, firms face difficulties and incur additional costs due to political and economic risks in the host country (Alvarez & Barney, 2005; Maitland & Sammartino, 2015b), as well as legitimacy challenges (Kostova & Zaheer, 1999) and the so-called "liability of foreignness" (Eden & Miller, 2004; Hymer, 1976; Zaheer, 1995). This is due to lack of familiarity with the host country and the ways of organizing and conducting business, limited information about opportunities and risks on operating in a foreign country, lack of adequate organizational capabilities to deal with those risks, and common discrimination by local constituents against "foreign" entities (Zaheer, 1995). These difficulties permeate all stages and aspects of firm's expansion and operation abroad and can only be addressed, at least to some extent, with appropriate internationalization strategies.

[Insert Figure 2 about here]

As we describe below, various theories have been proposed to explain different outcomes associated with the stages of firms' internationalization process. Rather than being comprehensive in our review of this vast literature, our goal is to sketch the totality of approaches and the central themes and findings in order to build a basic understanding of the firm internationalization process, which can then provide the necessary foundation for our examination of the role of cultural distance.

Location choice. Location choice theories of firm internationalization are classified into two main types (Buckley, Devinney, & Louviere, 2007; Kim & Aguilera, 2016). The first is rooted in the economic tradition (Kindleberger, 1969; Vernon, 1966), whereby the choice of a specific location for foreign investment is based on a rational process of decision-making based on a set of clear criteria (Buckley & Casson, 1976). In this perspective, internationalization motives typically include market seeking, efficiency seeking, natural resource seeking and knowledge or strategic asset seeking (Dunning, 1980; Dunning & Lundan, 2008; Hymer, 1976). Firms choose to invest in a specific location because of the related growth opportunities and/or cost advantages. This is a calculative rational economic decision.

The second perspective takes a more behavioral approach. Grounded in Cyert and March (1963) and Penrose (1959), it emphasizes the gradual learning that happens as firms internationalize, which then expands firms' horizons for future internationalization. This perspective on internationalization is captured by the so-called "Uppsala model" (Johanson & Vahlne, 1977, 1990, 2009; Barkema & Drogendijk, 2007). Here, location choices are viewed as a sequence that builds on previous foreign expansions and the associated organizational learning. Each subsequent foreign expansion is likely to be to a market that is somewhat similar to the existing locations of the company's operations. Although it has been suggested that location choice is best explained by a combination of both rational economic approach and capability process based approach (e.g. Makino, Lau, & Yeh, 2002), these two internationalization theories continue to be generally seen as distinct archetypes of firm location choice theories (Buckley et al., 2007).[1]

Theoretically, location choice studies typically explain the decision to expand to a specific host country based on the anticipated communication, coordination, and control costs. Accordingly, they predict that firms will first locate in countries that are culturally close and may move to more distant countries later after they gradually learn how to do business internationally (Johanson & Vahlne, 1977). Similar arguments stressing the costs of doing business abroad have been advanced by scholars following the economics perspective (Buckley & Casson, 1976; Ramachandran & Pant, 2010). Some recent research however provides evidence for the limitations of this prediction as companies seem to be motivated to enter culturally (and otherwise) distant host markets due to their strategic and economic appeal. For example, many emerging market firms from China, South Korea, and other Asian countries are boldly investing in Western (culturally distant) hosts to be closer to technology centers, strong competitors, and demanding customers who would help them develop further their innovation and organizational capabilities (BCG, 2014; Guillén & García-Canal, 2009; Luo & Tung, 2007). While this work does not explicitly suggest that the large cultural distance is the reason for such location decisions, it implies that cultural distance concerns can be outweighed by other factors that create benefits for the firm. Hence, it provides an argument for considering boundary and contingency conditions in studying cultural distance effects on the process of firm internationalization.

The empirical evidence on cultural distance and location choice is mixed. Holburn and Zelner (2010) find a significant negative effect, Delios, Gaur and Makino (2008) a significant positive effect, and Rose and Ito (2008) do not find any significant effect. Despite the broad interest in cultural distance and firm internationalization, location choice studies are relatively scarce and there is no meta-analysis on this topic to date. Anecdotal evidence and consulting reports acknowledge cultural differences as a factor that should be taken into account when firms decide whether to enter a specific host country, but only after market size, growth opportunities, legal constraints, market stability and costs of production (KPMG, 2016). This is consistent with Sethi, Guisinger, Phelan and Berg's (2003: p. 319) observation that MNCs may "be compelled to ignore the greater cultural distance of developing countries in favor of their low-wage advantage”. More robust evidence is provided by Buckley et al. (2007) who show in a series of experiments that managers rank culture 16th in importance as a factor of foreign location choices (return on investment ranks 1st). All in all, the existing evidence on location choice suggests that cultural differences may be relevant to location choice, but only after key economic indicators suggest that a location is attractive.

Entry and establishment mode. The next step in the firm internationalization process concerns the decision about the specific organizational form of the operation. This literature distinguishes between entry mode and establishment mode (see Dikova & Brouthers, 2016 for an overview), with the former referring to joint venture (JV) versus wholly owned subsidiary (WOS), and the latter – to acquisition (Acq) versus greenfield (GF) (Brouthers & Hennart, 2007; Martin, 2013; Slangen & Hennart, 2007). The term entry mode often is used to refer to both (Klier et al., 2016).

The primary theoretical perspective that has been employed in studying entry and establishment mode is transaction cost economics (TCE) (Williamson, 1985), with some variations depending on whether a JV should be classified as a form of hierarchical control (Hennart, 1988, 1991) or a hybrid organizational form between ‘hierarchy’ and ‘market’ (e.g. Anderson & Gatignon, 1986; Erramilli & Rao, 1990). In this view, the choice of a specific entry mode (JV vs WOS is most commonly studied, Brouthers & Hennart, 2007) is based on the anticipated cost of transactions which are in turn determined by the firm’s asset specificity (e.g. R&D intensity) or the uncertainty of the transaction (both internal uncertainty, such as international experience and external uncertainty, such as country risk).[2] The transaction cost perspective overall has provided high explanatory power to studying entry mode decisions as shown in a meta-analysis on the topic (Zhao, Luo, & Suh, 2004).

In addition, some entry and establishment mode research has employed the resource-based view (RBV) (Barney, 1991), which focuses on firm resources (e.g., experience) in explaining the choice between JV and WOS (Delios & Henisz, 2000; Madhok, 1997) and between acquisition and greenfield (Klier, Schwens, Zapkau, & Dikova, 2016). In general, the RBV perspective on entry mode choice suggests that the greater the resource base of the MNC, the higher the likelihood that it will select more complex organizational arrangements (Brouthers & Hennart, 2007; Brouthers, Brouthers, & Werner, 2008b), a finding in line with the key predictions of the transaction cost theory. In addition to TCE and RBV, entry mode studies have also used institutional theory (Martin, 2013), whereby the main idea has been that firms mimic others from their organizational class, i.e., they select a particular entry mode because other firms in the same industry and/or country tend to use that entry mode (e.g., Lu, 2002). In a study combining the transaction cost perspective with institutional theory, Yiu and Makino (2002) showed that both perspectives are robust in explaining firms' preference for JV or WOS.

Theoretically, most of this work views cultural distance as a source of uncertainty, complexity, and additional costs (see Appendix A) and suggests that greater distance increases the need to collaborate with a local partner familiar with the host country culture, thus predicting a JV (Anderson & Gatignon, 1986). From a transaction cost perspective, "cultural distance increases information asymmetry and consequently leads to increased monitoring costs. Accordingly, internalized foreign activities would be more efficient" (Morschett et al., 2010: p. 62). And further: "Transferring a company's capabilities to a culturally dissimilar host country is difficult and it is linked to high learning costs in the unfamiliar environment. [..] A cooperative entry mode can serve as a risk-reduction strategy" (Morschett et al., 2010: p. 61). Therefore, cultural distance is associated with JV rather than WOS entry mode.

Interestingly, the same theoretical perspective has been used to argue exactly the opposite (e.g. Hennart, 1988) – that when cultural distance is significant, firms should limit interaction with foreign partners and do it by themselves, that is, choose a WOS entry mode.

High cultural distance increases uncertainty, and because of that, a firm may want to limit interaction and collaboration with a local partner. Post-acquisition integration requires interaction between employees from different cultures, potentially causing conflict and misunderstandings (Reus & Lamont, 2009). Also, working with another partner "would involve "double-layered" acculturation whereby the company expanding abroad would have to cope with the foreign culture of customers and, moreover, with the different corporate culture of a cooperative partner, thus enhancing complexity" (Morschett et al. 2010: p. 62; Barkema et al., 1996). When cultural distance is high, it is "difficult for MNCs to integrate into their corporate network acquisitions made in culturally distant countries, as the practices of MNCs and acquired firms are likely to be incompatible and difficult to transfer in such cases" (Drogendijk & Slangen, 2006: p. 365). In acquisitions, the acquired company may strongly resist knowledge transfer to the acquiring company (Hennart, 1991). This line of reasoning predicts a lower probability of acquisitions, and a higher probability of greenfield investments and WOS, when cultural distance increases. As Anderson and Gatignon (1986, p. 18) note, "transaction costs analysis suggests both views are correct".

The empirical findings on cultural distance and entry and establishment mode are inconclusive. In a comprehensive review of culture research in international business, Kirkman et al. (2006) state that "the most glaring need […] is to explain the conflicting findings regarding the effects of cultural distance on various organizational decisions such as entry mode choice" (Kirkman et al., 2006: p. 302). Specifically, Morschett et al. (2010) find no significant relation between cultural distance and entry mode, defined as cooperative (e.g., JV) versus WOS. Zhao et al. (2004) establish a small negative effect of cultural distance on entry mode operationalized as ownership mode (though it is unclear whether this refers to JV, WOS, Acq or GF). They also find that this effect is moderated by whether the reference country is the USA or not (p. 531-532), which is in line with the earlier observation that sample structure may matter for cultural distance effect. Other meta-analyses on cultural distance and mode choice show inconclusive results (Magnusson et al., 2008; Morschett et al., 2010; Reus & Rottig, 2009; Tihanyi et al., 2005). One particular challenge with entry mode studies, including these meta-analyses, is that entry mode choice is usually defined broadly and mode decisions are explained by estimating logistic models on several binary choices between modes. Martin (2013) observes that scholars compare not only JV vs. WOS, but for example also JV vs. Acq and JV vs. GF, and combinations of these different modes. This is problematic to the extent that any finding on a possible determinant of entry or establishment mode choice (e.g. cultural distance) is "contingent on the heterogeneous aggregation or exclusion of some modes of entry" (Martin, 2013: p.36). As a result, the reference category shifts across studies. We tackle this empirical challenge in our meta-analysis by clearly distinguishing between entry (JV vs WOS) and establishment (GF vs Acq) mode.

Degree of ownership. Research on cultural distance and degree of ownership (or level of commitment) has been usually integrated with entry mode studies, and similarly has produced inconclusive findings. There appears to be no consensus regarding the effects of cultural distance on amount of capital invested (often operationalized by ownership share for cooperative entry modes). Some studies report a negative relationship, suggesting less ownership shares under large cultural distance (e.g. Malhotra, Sivakumar, & Zu, 2011; Wilkinson, Peng, Brouthers & Beamish, 2008) while others find a positive relationship (e.g. Padmanabhan & Cho, 1996). In their meta-analysis, Tihanyi et al. (2005) do not find significant direct effect of cultural distance on the degree of ownership. We note though that in Tihanyi et al.'s study the degree of ownership is pooled with other high equity entry modes such as WOS, acquisition, and JV (Tihanyi et al., 2005: p. 274) making it hard to directly attribute these results to a particular measure of amount of capital invested.

Integration of foreign operation. Having decided on location, entry and establishment mode, and degree of ownership, MNCs need to address the question of how to manage the foreign operation, what is the proper governance arrangement between the parent company and the foreign unit that would provide the best integration, coordination and control (Bartlett & Ghoshal, 1989; Kostova, Nell, & Hoenen, 2016). Different models require different levels of control and coordination between the headquarters and the subsidiary (Bartlett & Ghoshal, 1998; Prahalad & Doz, 1987); they vary with regard to allocation of assets and decision-making authority, and the degree to which different units in the MNC use standardized organizational practices and structures (Kostova, Marano, & Tallman, 2015). Transfer of practices is an essential element in all MNC models, although the direction and the drive of this process might vary across models (Kostova, 1999). While research on transfer of practices within MNCs has employed a number of theoretical perspectives, such as information processing theory (Szulanski, 1996) and social capital theory (Nahapiet & Ghoshal, 1998), the majority of the work in this area is based on institutional theory (Kostova, 1999; Powell & Dimaggio, 1991; Sanders & Tuschke, 2007; Scott, 1995).

Theoretically, the relationship between cultural distance and integration of the foreign subsidiary into the MNC is complex. On the one hand, cultural distance is expected to negatively affect the degree and ease of integration because it is associated with different organizational practices and ways of doing business at the parent company and the foreign operation, difficulties in communication due to language barriers and distinct communication patterns, and a general lack of trust between the two sides as a result of the perceptions of "foreignness". Several studies in international management have theorized and proposed such negative effects on various aspects of integration including control, coordination, transfer of practices, and agency relationships between headquarters and subsidiaries (Kostova, 1999; Kostova, Nell, & Hoenen, 2016).

On the other hand, the strategic motivation for investing abroad when distances are considerable is often accompanied by a belief that the MNC possesses firm-specific competences that if transferred to the foreign location, will create value, or that it can learn from the host country and leverage its competences worldwide (Bartlett & Ghoshal, 1998). This could explain the paradox of emerging market firms investing aggressively in developed economies and vice versa, developed economy MNCs investing boldly in distant and less developed countries where they see economic advantages and a potential benefit of organizational upgrades of the foreign operation.

Thus, on the one hand, cultural distance makes it more beneficial for the company to integrate the foreign operation through best practices and establishing organizational control and coordination systems; on the other hand, cultural distance makes such integration more challenging and difficult compared to locations that are culturally proximal. The empirical literature is reflective of this complex picture. Extant meta-analyses have not explored this aspect of firm internationalization. As concluded by Stahl and Voigt (2008: p. 161), "integration process variables […] have not been examined with sufficient frequency in previous research to be considered" in their meta-analysis. Theoretically, it may be important to distinguish between the amount and benefits of transfers. Research would benefit if scholars could capture this distinction between the potential value/need for integration versus the potential difficulty in achieving integration.

Performance. The dominant view in the literature is that cultural distance has negative performance consequences because of the complexity and uncertainty of doing business in a distant host country (see Appendix A). Complexity results in higher transaction, communication, coordination, and control costs as well as in increased difficulty to integrate the foreign operation through common practices (Kostova et al., 2016). Uncertainty further exacerbates such costs and risks and drives down company's commitment to a certain location. Recently, a few studies have suggested a positive effect of cultural distance due to the potential benefits of learning from a more distant counterpart that is likely to have different competences and capabilities, and also more creative decision making (Gomez-Mejia & Palich, 1997; Morosini et al., 1998). Reus & Lamont (2009) show that firms that have chosen to acquire a foreign firm and possess integration capabilities are able to mitigate the negative performance effects of cultural distance.

The empirical evidence on this relationship is mixed. Magnusson et al. (2008) report a small negative effect of cultural distance on performance. A meta-analysis of performance effects in international joint ventures (IJVs) shows that "empirical findings for a direct effect of cultural distance on IJV performance are inconclusive" (Reus & Rottig, 2009: p. 610). Tihanyi et al. (2005: p. 276) find that "the estimate of the multivariate relationship indicated that cultural distance was not meaningfully related to firm performance". A possible reason for the inconclusive results regarding performance (besides sample size differences as suggested by Tihanyi et al., 2005) may be the fact that none of the extant meta analyses have distinguished between the MNC and subsidiary level of analysis and very few (e.g., Reus & Lamont, 2009) have explored additional moderating conditions where the performance effect of distance turns positive.

Research Questions

In summary, our review of the literature on cultural distance and the process of firm internationalization shows that scholars have employed an "envelope" of theories and theoretical perspectives (Dunning, 2000) (transaction costs theory, RBV, institutional theory) to explain different outcomes associated with various aspects of the firm internationalization process. Furthermore, the findings on cultural distance effects have been inconclusive (positive, negative or insignificant results for the same outcome), and research approach has been typically partial and incomplete (e.g., focusing on only one stage as opposed to all stages, pooling firm and subsidiary performance and /or pooling mode choices). In our effort to synthesize and further advance this literature we address several research questions, some concerning the base relationship between cultural distance and various aspects of the firm internationalization process, others –addressing additional contingences (moderating factors) that could help explain the inconclusive findings in past research. Under the broad research question of our study about the relationship between cultural distance and the process of firm internationalization, we address the following specific research questions:

RQ1. How does cultural distance affect the different stages of the firm internationalization process? Does the effect vary depending of the particular aspect of the internationalization process - location choice, entry and establishment mode, degree of ownership, transfer of practices? Does the performance effect vary between subsidiary and MNC?

RQ2. Given the criticism on the measurement of cultural distance, do the relations uncovered under RQ1 depend on the particular operationalization and measurement of cultural distance used in the respective studies?

RQ3: Are the effects of cultural distance on the various aspects of internationalization contingent on the type of home and/or host country studied? Specifically, does the developed vs. emerging market country condition moderate these relationships?

RQ4. Are cultural distance effects stable or possibly diminishing over time, as a result of globalization and cross-country integration of the world economy and firms' increasing international experience?

METHODOLOGY

Sample

To address our research questions, we conducted a meta-analytical study that followed recently established guidelines for developing rigorous meta-analytic research in management and international business (Buckley, Devinney, & Tang, 2013; Marano et al., 2016). In order to identify the highest number of articles investigating the effects of cultural distance on firm internationalization, we followed a sequence of five search strategies. First, we read several narrative reviews (e.g., Kirkman et al., 2006, Shenkar, 2001) and existing meta-analyses (Klier et al., 2016; Magnusson et al., 2008; Morschett, Schramm-Klein, & Swoboda, 2010; Stahl & Voigt, 2008; Reus & Rottig, 2009; Tihanyi et al., 2005; Zhao et al., 2004) concerning the relationship between cultural distance and aspects of the process of firm internationalization (none of these address the whole process in an integrated way). Second, we searched three major electronic databases (Business Source Complete, Google Scholar, and Web of Science) by using the following search terms: "distance", "cultural distance", "cultural differences", and "internationalization". Third, after the initial sample of studies was completed we conducted a manual search in 15 journals across the disciplines of economics, management, and international business that have published articles on cultural distance, including: Journal of International Business Studies, Journal of Management, and Academy of Management Journal. Fourth, we continued our search by using the "snowballing" technique, which entails exploring references lists and Google Scholar citations of the articles in our initial pool. Finally, we reached out to researchers whose studies we had identified but we were not able to access through the above channels. This systematic approach reflects best practice for conducting meta-analysis since it minimizes the chance of missing important papers and increases the validity of the findings.

Our search process yielded a final dataset consisting of 156 studies published in the period 1988-2015 from various fields, including international business, strategy, human resource management, entrepreneurship, marketing, economics, and finance. We note that studies using country level FDI data were not included in the sample because our paper is about firm internationalization, which is difficult to derive from country level statistics. As other scholars have pointed out, such country level FDI studies do not specifically capture the foreign value adding activity of MNCs (Beugelsdijk, Hennart, Smeets & Slangen, 2010).

A full list of all primary studies is included in Appendix B. Out of all 156 studies in the sample, 153 are published and 3 are working papers or doctoral dissertations. The primary studies published between 1988-2015 included in our sample cover the period 1968-2011 in which firms made internationalization decisions. These include both developed and emerging markets from all regions of the world. Our data concerning the cultural distance-performance relationship consist of 218,106 bivariate observations and 698,589 partial observations. This is a significant increase from the previous meta-analyses on the cultural distance-internationalization relationship by Tihanyi et al. (2005) based on 7,848 bivariate observations, Magnusson et al. (2008) based on 35,005 bivariate observations, Reus and Rottig (2009) – with 22,460 bivariate correlations, and Stahl and Voigt (2008) with 9,396 bivariate observations. The larger sample size ensures the necessary statistical power to derive findings and implications for the various aspects of the internationalization process. We add to the previous literature by examining the distance effects on multiple outcomes related to internationalization, distinguishing between different entry and establishment modes, and examining performance impact at both subsidiary and MNC levels. Finally, we apply more advanced meta-analytical techniques leveraging the progress made in this area of research (Kirca & Yaprak, 2010; Stanley & Doucouliagos, 2012). One extension is that we use partial correlation as effect sizes, allowing us to incorporate samples from disciplinary results such as economics, in which pearson product-moment correlations is not normally reported (Van Essen et al., 2012), and control for the influence of the control variables contained in the z-vector (Marano et al., 2016). Table 1 summarizes the differences between our study and previous similar meta-analyses including the work on foreign market entry mode (Morschett et al., 2010; Zhao et al., 2004), performance (Reus & Rottig, 2009; Stahl & Voigt, 2008), and entry mode and performance (Tihanyi et al., 2005; Magnusson et al., 2008).

[Insert Table 1 about here]

We proceeded by reading all articles and by developing a coding protocol (Lipsey & Wilson, 2001) to extract data on all relevant variables and study characteristics. Two authors coded all the data, while a third author coded a sub-sample of 270 randomly-selected effect sizes to assess the degree of agreement in terms of extracting information from primary studies (Stanley et al., 2013). We had a high degree of inter-rater agreement - (Cohen's kappa of 0.98 (Cohen, 1960).

Meta-analytic Procedure

We used two methodological procedures – HOMA and MARA –, which help achieve distinct analytical objectives.

HOMA procedure. We use Hedges-Olkin type meta-analysis (HOMA) in order to determine the mean size of the effect of cultural distance on the outcomes associated with the different stages of internationalization. We used Pearson product-moment correlations (*r*) and partial correlation coefficients ($r_{xy.z}$) as effect sizes. The latter represents the relationship between those variables when keeping a certain set of variables (z) constant. Like *r*, $r_{xy.z}$ is an easily interpretable and scale-free measure of linear association. It can be computed from the *t*-statistics and degrees of freedom reported in the primary studies (Greene, 2003). We performed our computations using random-effects HOMA, which accounts for potential heterogeneity in the effect size distribution and is more conservative than fixed-effects HOMA (Kisamore & Brannick, 2008; Raudenbush & Bryk, 2002).

When multiple measurements of the focal effect were reported in one study (for example, due to the reporting of results for different operationalizations of cultural distance), we included all of them in our analyses. Monte Carlo simulations show that procedures using the complete set of measurements outperform those representing each study with a single value in areas like parameter significance testing and parameter estimation accuracy (Bijmolt & Pieters, 2001). To accurately account for differences across effect sizes, we weighted each effect size by its inverse variance weight *w*, the inverse of the squared standard error (Hedges & Olkin, 1985). [3] Next, we used these weights to compute the standard error of the mean effect size and its corresponding confidence interval.[4]

MARA procedure. We use meta-analytic regression analysis (MARA) to test the robustness of our model against a number of control variables. In the MARA analyses, the dependent variable is neither cultural distance nor any of the independent variables (e.g., entry mode or performance), but an estimate of the associational strength of the focal relationship in a given sample (e.g. cultural distance and performance), such that all independent variables in the regression equation are modeled as moderators of the focal relationship (Van Essen et al., 2015). MARA is a weighted least squares technique, which seeks to model previously unexplained variance in the effect size distribution (Lipsey & Wilson, 2001). We used weighted regression to account for differences in precision across effect sizes. The statistically preferable weighting variable is, once again, *w* (Hedges & Olkin, 1985).

Following current standards in the meta-analytic literature (Geyskens et al., 2009), we used random effects estimation methods in the MARA analyses, which are more conservative than conventional fixed effects methods. Specifically, this yielded the following regression equation:

$$R_i = y_0 + y_m D_i + \beta_m S_i + \varphi R_I + u_i$$

where R_i is the correlation between cultural distance and each of the outcomes for the different stages of the firm internationalization process (i.e., location choice, entry mode, establishment mode, degree of ownership, transfer of practices, and performance), y_0 is the constant term, *D* is a vector of measurement artifacts, S is a vector of methodological study characteristics, R is the set of firm characteristics, and u_i is the random component.

Operationalizing Firm Internationalization and Cultural Distance

Outcomes of internationalization. As described above, primary studies have related cultural distance to various decisions associated with the firm internationalization process. Consistent with the literature, we operationalize them in the following way:

(1) Location choice (Dunning & Lundan, 2008; Rugman & Verbeke, 2009), i.e., in which host country to invest. The choice to invest in a country is typically measured using a binary variable, with the MNC-host country-year as the unit of analysis. The variable takes the value of 1 if the MNC invests in a certain host country in a given year and 0 otherwise. Since the unit of analysis is the MNC-host country-year, the primary studies focusing on the choice to invest are based on a sample size that is considerably higher than that of other studies;

(2) Entry mode, operationalized through a binary variable, which is equal to 1 when the MNC opts for a wholly-owned foreign subsidiary (WOS) and to 0 when it chooses a joint venture (JV) with a local or international partner;

(3) Establishment mode (e.g., Brouthers, 2002; Kogut & Singh, 1988), i.e., whether the company enters the foreign market through acquisition or greenfield investment. Following extant literature (e.g., Barkema & Vermeulen, 1998; Slangen, 2011), we operationalize investment mode through a dummy variable, taking the value of 1 for acquired subsidiaries and 0 for those established through greenfield investments;

(4) Degree of ownership (e.g., Chan & Makino, 2007), i.e., the size of the foreign investment, which determines the level of commitment (Ghemawat, 1991) in the host country. The scale of investment is rarely measured in "absolute" terms, i.e., in terms of the absolute amount of capital employed by the MNC when investing in a certain host country.

Consequently, we use a proxy that captures scale of investment in "relative" terms, i.e., the equity stake of the parent company in the foreign investment (e.g., Chan & Makino, 2007; Xu et al., 2004);

(5) As discussed above, we operationalize the integration of foreign operations as both the amount of practices transferred to the foreign subsidiary and the benefits of the practice transfer. The amount of practices transferred is measured by: (a) whether a transfer event has occurred (e.g., Hansen & Lovas, 2004; Xia, 2011); (b) number of transfers (e.g., Drogendijk & Slangen, 2006; Slangen, 2011); and (c) actual amount of transferred practices, such as those "incorporated" in the patents of an acquired subsidiary (e.g., Ahuja & Katila, 2001). The benefit of the practice for the recipient foreign subsidiary is measured as the unit's perceived organizational learning as a result of the transfer (e.g., Lane et al., 2001; Minbaeva et al., 2003; Sarala & Vaara, 2010);

(6) Firm performance**.** For a broader account of the internationalization strategy, we examine performance effects at the MNE and the subsidiary level (e.g., Barkema et al., 1996). Specifically, we use: (a) accounting performance including return on assets (ROA), return on investment (ROI), return on sales (ROS), and return on equity (ROE) (e.g., Barkema & Vermeulen, 1998; Luo, 2005); (b) market performance including earnings per share, market to book value, Tobin's Q, and cumulative abnormal returns on the stock (e.g., Aybar & Ficici 2009; Reuer, 2001); (c) subsidiary longevity (e.g., Lu & Beamish, 2006) or survival (e.g., Delios & Beamish, 2004); (d) innovation performance reflected in the innovation output of the firm, for example in terms of patents (e.g., Ahuja & Katila, 2001). All other measures of performance (e.g., sales growth, market share) are included in the "Other" category.

Cultural distance. Since cultural distance has been measured in different ways, we distinguish between the various measures and data sources. We test for a possible moderating effect of the operationalization and measurement approach by creating dummy variables indicating whether cultural distance was measured through one of the following measures:

(1) Kogut and Singh (1988) Cultural Distance Index (KSI), measured as the Euclidean distance (using normalized scores on culture dimensions), i.e., the square root of the sum of the squared differences in cultural value dimensions between home and host country. We coded this dummy as 1 when a study used this measure of cultural distance, and 0 otherwise. Typically, KSI is based on the four dimensions of Hofstede's (1980) culture framework.

(2) Mahanalobis distance, introduced in the distance literature by Berry et al. (2010). This measure, unlike the Euclidean distance, takes into account the correlation between the cultural dimensions used in the measurement. In the absence of correlation between the culture dimensions, this measure is identical to KSI based on Euclidean distance (Beugelsdijk et al., 2017). The dummy takes the value of 1 when the Mahalanobis technique is used to calculate cultural distance.

(3) A dummy variable indicating whether the host country is located in a cultural cluster different from the home country of the firm. Typically, studies that use this approach rely on the cultural clusters identified by Ronen and Shenkar (1985, 2013). We coded this dummy as 1 when a study used cultural clusters to measure cultural distance.

(4) Perceptual (or "psychic") distance, which is managers' perception of the cultural distance between home and host country. This measure typically employs primary data collected through questionnaires among managers involved in the internationalization process and does not involve scores from both home and host country. We coded the dummy as 1 if a study used perceptual measures of cultural distance.

(5) Other measures of distance include, for example, stepwise cultural zone distance (Barkema et al., 1996) and sum of cultural distance between the home country and the host

countries weighted by number of subsidiaries in each host country (Beamish & Kachra, 2004). The dummy takes the score 1 if such other operationalizations of cultural distance are used.

Cultural distance data source: We also examine the impact of the source of cultural distance data sources used by the primary studies in our sample. For an extensive description of the dimensions included in each of these frameworks, we refer to the original publications and overviews, such as Kirkman et al. (2006). Specifically:

(1) Most studies rely on the cultural framework developed by Hofstede (1980, 2001). In his study of how values in the workplace are influenced by culture, Hofstede analyzed a large amount of primary data collected at IBM between the late 1960s and early 1970s and identified the following cultural dimensions: power distance, individualism, masculinity, uncertainty avoidance, and long-term orientation. Hofstede et al.'s (2010) recent addition of a sixth dimension (indulgence versus restraint) is too recent to have been included in primary studies considered. We would also note that the correlation between the fifth and sixth dimensional distance metric is very high.

(2) National scores on cultural dimensions from the GLOBE project (House et al., 2004). The cultural dimensions identified in the study are performance orientation, assertiveness, future orientation, humane orientation, institutional collectivism, in-group collectivism, gender egalitarianism, power distance, and uncertainty avoidance;

(3) National scores on cultural dimensions based on Schwartz (1994, 1999, 2004). The author identifies three key issues that societies confront and derives three corresponding dimensions for cross-country cultural analysis: embeddedness vs. autonomy, hierarchy vs. egalitarianism, and mastery vs. harmony;

(4) Trompenaars' (1993) developed a framework that includes seven cultural dimensions: universalism, individualism, neutral vs. affective, specific vs. diffuse, achievement vs. ascription, attitudes with regard to time, attitudes with regard to the

environment. Although these data are not publicly available, they have been included in a small subset of studies;

(5) Cultural clusters identified by Ronen and Shenkar (1985, 2013). These authors reviewed and synthesized eight studies on cross-country cultural differences and identified eight relatively distinct cultural clusters: Anglo-Saxon, Germanic, Nordic, Latin European, Latin American, Near East, Far East, Arabic;

(6) Primary data, which overlaps with the perceptual measurement. These data refer to surveys in which managers are asked to indicate the (perceived) cultural distance to a particular country. These data are study specific (e.g., Luo, 2002).

Control variables. When performing the MARA analysis, we included several control variables have been continuously raised by the critics; aimed to account for the effect of various artifacts on the relationships of interest.

(1) We controlled for the moderating effect of firm identity on the effect of cultural distance on performance. As discussed in the "Theory" section, there is a reason to believe that the effect of cultural distance on performance differs between subsidiary and MNC.

(2) In order to test for the moderating effect of methodological artifacts, we controlled, first, for the "file drawer problem" (Rosenthal, 1979; Meyer et al., 2017), by including a dummy variable denoting whether a study was published (1) or not (0). Our sample predominantly includes published studies which may limit the possibility to detect selection bias. However, the file drawer problem does not appear to affect correlation tables in published versus unpublished papers (Dalton et al., 2012), and since we provide both the results of the bivariate as well as the partial correlation coefficients, we have no reason to suspect a major bias of our result because of the selection bias. Second, we controlled for the sample median year to test whether the base relationship has changed over time. Third, we included a panel (1) or cross-sectional (0) data dummy. Fourth, we included an endogeneity

check dummy to test if endogeneity is driving our results or not, taking value of 1 if the effect is estimated while controlling for potential endogeneity or not (0).

(3) Since a significant part of our sample is based on U.S. companies, and it has been suggested that using a developed country, specifically the U.S. as a single reference country may affect the results, we included a dummy that takes value of 1 when cultural distance is measured from or to the U.S. and 0 otherwise.

(4) We included a dummy variable indicating whether the home or host country is developed or an emerging market.

(5) We also controlled for model specification artifacts, which are all dummy variables. Specifically, we controlled for whether the effect is measured as a partial (1) or a bivariate correlation (0). Two dominant extensions of the cultural distance construct are the CAGE-framework (Ghemawat, 2001) and the institutional distance construct (Kostova, 1999). In order to control for potential effects of alternative types of distance, we included in the MARA analyses a binary variable taking value of 1 when the primary study includes other types of distance (i.e., economic, institutional/administrative, or geographic) in the estimated models. We also controlled for whether the primary study includes other performance controls, normally lagged performance measures.

RESULTS

HOMA Results

Tables 2-7 show results of our HOMA. We only show the bivariate and partial correlation coefficients when the number of effects sizes is based on a minimum number of effect size (k) of 3 (Lipsey & Wilson, 2001) consisting of at least 2 studies (Valentine, Pigott & Rothstein, 2010). Table 2 reports the results of a number of r- and $r_{xy.z}$-based HOMA analyses of the effect of cultural distance on the decision to invest in a foreign country (location choice). We find that cultural distance has a negative and statistically significant effect on the choice to invest in a particular host country (mean effect size = -0.023, p=.034). Our distinction between measurement techniques shows that this negative relation is driven by two studies using the Mahalanobis technique to calculate cultural distance (Berry et al., 2010; Zhou & Guillen, 2010). For the Hofstede-based studies using the standard Kogut and Singh index of cultural distance we find no significant effect on location choice. The use of the Mahalanobis technique is fairly recent. It is thus no surprise that the relationship between cultural distance and location choice becomes more negative over time. As the number of studies that have used the Mahalanobis technique is still very limited, we interpret this result with care. More location choice studies applying the Mahalanobis technique are required to corroborate this finding.

[Insert Table 2 about here]

Table 3a reports the results of the r- and $r_{xy.z}$-based HOMA analyses of the effect of cultural distance on entry mode decision. We find that overall the relationship between cultural distance and entry mode decision is not statistically significant. However, this result varies across cultural distance data sources. Specifically, results based on Hofstede's data on four cultural dimensions, suggest a negative and statistically significant effect of cultural distance on the likelihood of WOS (mean effect size = -0.023; p=.059), while results based on GLOBE's (mean effect size = 0.079; p=.001) and Schwartz's (mean effect size = 0.170; p=.000) data show a positive and statistically significant relationship. The effect of cultural distance changes over time, being negative and statistically significant in earlier years and positive and statistically significant in more recent years. This change in effect over time coincides with the use of GLOBE and Schwartz (versus the use of Hofstede) in more recent years. The number of studies that have unpacked the overall Hofstede based cultural distance measure in its different cultural dimensions is limited. The findings do suggest that especially the Individualism-Collectivism dimension drives the negative overall effect of cultural distance. This is not surprising given the generally acknowledged relevance of Individualism as one of the key dimensions of national culture (Triandis, 1995).

[Insert Table 3a about here]

Table 3b reports the results of the *r*- and $r_{xy.z}$-based HOMA analyses of the effect of cultural distance on establishment mode. Consistent with the extant literature (e.g., Barkema & Vermeulen, 1998; Kogut & Singh, 1988), we find a negative and statistically significant effect of cultural distance on the likelihood of acquisition (mean effect size = -0.050; p=.000). This result is consistent when using perceptual measures (mean effect size = -.100; p=.012). These negative effects become insignificant when Schwartz data are used (mean effect size = -.076; p=.403).

[Insert Table 3b about here]

Table 4 reports the results of the *r*- and $r_{xy.z}$-based HOMA analyses of cultural distance effect on degree of ownership. We find no significant relationship between the two and this finding is stable across different cultural distance measures and data sources.

[Insert Table 4 about here]

Table 5a reports the results of the *r*- and $r_{xy.z}$-based HOMA analyses of the effect of cultural distance on amount of practice transfer showing no statistically significant relationship overall (mean effect size = 0.011; p=.442). However, we find variation depending on the particular cultural distance measures used. Specifically, Hofstede-based measures show a positive and statistically significant effect of cultural distance on amount of practice transfer (mean effect size = 0.045; p=.001) while perceptual measures show a strong negative relationship (mean effect size = -0.615; p=.021). It should be noted though that the results for perceptual measures are based on only two studies (Cho & Lee, 2004; Drogendijk & Slangen, 2006). Furthermore, as shown in Table 5b, it seems that the opportunity perceived in cultural distance turns into actual benefits for MNEs. The results of the *r*- and $r_{xy.z}$-based HOMA analyses show that cultural distance has a positive and statistically significant effect on benefits of practice transfer (mean effect size = 0.148; p=.000) and these results are consistent across cultural distance data and over time. The effect size is also very high suggesting a strong relationship between cultural distance and the benefits of practice transfer.

[Insert Tables 5a and 5b about here]

The *r*- and $r_{xy.z}$-based HOMA results for the relationship between cultural distance and firm performance are reported in Table 6. We find that cultural distance has a negative and statistically significant effect on firm performance (mean effect size = -0.032; p=.000). The variance in effect size distribution is substantial (Q = 7,126.47; I^2 = 0.94) suggestion the mean effect is best interpreted as an average rather than a common true correlation value, implying that further robustness analyses are needed.

[Insert Table 6 about here]

Table 6 also reports robustness tests of the HOMA results. With the exception of the Globe data, the results are similar across different measures and data sources of cultural distance as well as over time. We would note that the effect size for the distance measure based on Trompenaars' framework is large compared to the other data sources, but that this should be interpreted with care given the limited number of studies using Trompenaars. Furthermore, results are largely robust across different performance measures, and most of the subsample analyses yield effect sizes consistent with the overall mean. We observe a very large effect size for perceptual measures compared to the non-perceptual measures (-.211 versus -.035 for the Kogut-Singh Index). A similar result for perceptual measures on performance was obtained by Reus & Rottig (2009) in their meta-analysis of performance of international joint ventures.

The only two performance measures that do not show a significant negative relationship with cultural distance are market performance and innovation. While the mean effect size is not significant for market performance, the mean effect size for innovation is positive and statistically significant (mean effect size = 0.032; p=.065). Interestingly, this result seems consistent with our findings about the effect of cultural distance on the amount and benefit of practice transfer and suggests that cultural distance may represent an opportunity for organizational learning, and as a consequence, the innovativeness of the firm.

One unexpected finding that HOMA analysis reveals is that cultural distance only impacts subsidiary performance, but not the performance of the whole MNC. This differential effect suggests that the risks and costs associated with investments to culturally distant countries may be offset by the overall benefits of internationalization, which seem to be reaped at the level of the MNC as opposed to the level of a specific host-country subsidiary.

Furthermore, we find that cultural distance has a negative effect on performance (mean effect size = -0.115; p=.000) for emerging markets but a positive effect (mean effect size = 0.039; p=.096) for developed host countries. This might suggest a potential learning effect of internationalization, especially for firms coming from emerging countries. Finally, the HOMA analysis shows no significant performance effect of cultural distance for U.S. firms. This could be explained perhaps by the higher degree of internationalization and greater international experience of American firms accentuating the learning effects.

[Insert Table 7 about here]

Table 7 reports the analytical results for both Pearson bivariate correlation and partial correlation coefficients. It shows that cultural distance has a negative and statistically significant effect on performance using both techniques (r-based mean = -0.034 and p=.002; $r_{xy.z}$-based mean = -0.031 with p=.000). However, there are a few noteworthy differences. First, when using Pearson correlations, cultural distance has a negative effect on subsidiary performance but has no significant effect on MNC performance. Results are slightly different for the partial correlation technique where cultural distance shows a negative and statistically significant impact on subsidiary performance and a positive and significant effect on MNC performance. This is possibly due to the potential organizational learning opportunities of internationalization achieved at the level of the entire MNC network. Second, Pearson correlation technique does not yield significant results with regards to firm origin, the partial correlation technique shows negative and statistically significant results for firms from developed countries ($r_{xy.z}$-based mean = -0.049; p=.000) and positive and statistically significant results for firms from emerging markets ($r_{xy.z}$-based mean = 0.040; p=.092). Third, *r*-based estimations do not provide evidence of a significant effect of cultural distance from developed host countries. However, consistent with our HOMA results, *rxy.z*-based estimations show a positive and statistically significant effect. Overall, we can conclude that we find less significant results when using the Pearson bivariate correlation technique of meta-analysis than when using the partial correlation technique (which, as stated above, keeps other variables constant), probably as a result of different sample sizes in the two analyses.

MARA Results.

MARA results (Table 8) further confirm the importance of controlling for methodological and model specification artifacts and variable operationalization.

[Insert Table 8 about here]

Consistent with the HOMA results, the relationship between cultural distance and performance is more negative when cultural distance is operationalized through perceptual measures based on primary data. As already noted for HOMA analysis, performance is more positively influenced by cultural distance when operating in developed host countries and more negatively influenced by cultural distance when operating in emerging markets. Moreover, the impact of cultural distance on performance is more positive for firms from emerging markets (in Model 3, $\beta = 0.05$, $p = .057$). Also, consistent with the HOMA results, the MARA analysis indicates that cultural distance has a negative effect on performance when it is measured at the subsidiary level (in all models, β = -0.15, p=.000). Among the methodological artifacts, panel design of a study shows a significant positive effect on the cultural distance to performance relationship (in Model 2, β = 0.05, p=.009). This indicates that panels tend to yield more positive effects of cultural distance on firm performance. Also, the focal relationship tends to be more negative when potential endogeneity issues are addressed in the primary study (in Model 2, β = -0.06, p=.023).

DISCUSSION

Our objective in this paper was to bring additional clarity on the role of cultural distance in the process of firm internationalization. Despite the wide use of cultural distance in the global strategy literature, results on its effects on the firm internationalization process have been inconclusive. Based on our review and analysis, we believe that a major reason for this lack of consistency is that this research has been often done in a rather broad-brush manner. Scholars have either tended to generalize the construct of internationalization a bit too much without sufficient attention to its different stages, aspects, or outcomes, or have narrowly focused on a specific decision or outcome without an attempt to integrate findings across related outcomes. In addition, different cultural distance measures have been used without proper explanation of their reliability or relative advantages.

To remedy these limitations, we adopted a comprehensive view of the process of firm internationalization examining all key stages and strategic decisions related to this process, even adding to the discussion its performance consequences. We followed a similar approach to cultural distance considering a wide range of studies that employed different operationalizations and measures of cultural distance. We were able to maximally leverage existing research by conducting the largest meta-analysis of primary cultural distance studies to date. Furthermore, we employed the most advanced meta-analytical methodology for our analysis. As a result, we feel confident that our review and analysis of the substantial literature on this topic were both comprehensive and rigorous, and thus provide a solid foundation for drawing a number of important theoretical insights and ideas for future research in this area. Figure 3 summarizes our key findings. Below we relate the key findings to the four research questions that we posited and put our results in perspective.

[Insert Figure 3 about here]

RQ1 asked whether cultural distance affects key decisions in the various stages of firm internationalization and if so, how. We find that cultural distance affects internationalization, but in a more intricate way than commonly assumed. In sum, firms tend to stay away from culturally distant countries, which is consistent with mainstream theories of location choice and FDI. If they invest in such countries, firms prefer greenfields over acquisitions. Although transaction costs theory has been used to predict both an acquisition (as it provides learning possibilities), as well as a greenfield (to minimize friction with host country nationals), our meta-analytic results suggest the latter effect dominates. Firms also benefit significantly from the transfer of practices to such culturally distant locations. However, going to a culturally distant host country negatively impacts the performance of the subsidiary there. Figure 3 provides a visual summary of cultural distance effects on the various stages of firm internationalization. Unpacking these stages shows the differential effects of cultural distance and underscores that studies of internationalization would benefit from more fine-grained analysis by stage. As seen in Figure 3, the effect size of cultural distance is largest for the integration stage of practice transfer (|.148|), followed by the negative subsidiary performance effect (|.073|), the preference for greenfield vs acquisition (|.05|), and lastly, location choice (|.023|).

The differential performance effect of cultural distance (subsidiary vs. MNC) is one of our most interesting findings. The negative effect of distance on subsidiary performance is in line with existing theories including both classic MNC views and the behavioral view.

According to the classic view (Hymer, 1976; Kogut & Zander, 1992), negative performance effects are due to costs exceeding the benefits of internationalization. In the behavioral view (Foss & Lindenberg, 2013; Maitland & Sammartino, 2015b; Powell, Lovallo, & Fox, 2011), they result from underestimation of the true costs associated with internationalizing to culturally distant countries (Dibbern et al., 2008; Larsen et al., 2013). Thus, while the two perspectives suggest different explanatory mechanisms, the result is the same – subsidiaries are impacted negatively by large cultural distance. Intriguingly, cultural distance does not affect the performance of the MNC as a whole. This finding is intuitive, as companies would not be internationalizing if it were otherwise. But understanding how firms can compensate at the corporate level for the negative subsidiary performance in distant (and thus risky and high cost) host countries is a fascinating question. The data from our sample did not allow us to tease out these complex dynamics, but we are excited about the opportunity to study this question further in the future. It seems that companies perhaps make these location decisions in the context of their overall strategic portfolios of international operations rather than with regard to a specific host market. Theories of internationalization should be catching up with this possible view.

Another set of findings worth noting is the mixed effect of cultural distance on amount of practice transfer, coupled with a positive impact on the benefits of practice transfer. In fact, this was the strongest effect of cultural distance among all outcomes that we examined. The first part of this finding is rather straightforward as companies are reluctant to engage in such efforts given the very different context in which the subsidiary is placed; hence the anticipated difficulties of transferring the practice and the meaning behind it, in particular, which is essential for its successful adoption (Kostova, 1999; Kostova & Roth, 2003). The second part of the finding, although a bit counterintuitive, is not surprising either. It is consistent with the concept of the "transnational" organization (Bartlett & Ghoshal, 1998), which suggests that companies benefit from a more integrated model of sharing knowledge and best practices among the portfolio of operations that might be located in very diverse national settings. As scholars have shown, there are mechanisms through which companies can overcome the challenges of cultural distance in such integration efforts through common practices. For example, Kostova and Roth (2002) found that social capital reflected in trust, commitment, and identification of the subsidiary with the corporate headquarters facilitate practice transfer by closing of the gap between the two sides. Although our study did not allow us to test these ideas on a larger scale, future research to identify most effective ways in which organizations may overcome cultural distance for the benefits of organizational integration, and when such benefits outweigh the costs related to distance is warranted.

RQ2 concerned the sensitivity of the distance effects to the particular measurement and operationalization of cultural distance. We find that studies using perceptual measures tend to have more pronounced effects compared to the cultural distance index based on secondary data. One explanation may be that the number of studies using perceptual measures is still limited. This does however not hold for performance studies of which a sufficient number exists and for which we still find a large negative effect, much larger than any of the other cultural distance measures. The reason why the perceptual measures have a stronger performance effect (relative to other measures of cultural distance) may be that they possibly capture other perceived differences and difficulties in the respective host country (beyond culture) but respondents attribute these negative perceptions to cultural distance. As a result, perceptual measures may overstate the role of cultural distance. In fact, the early Uppsala model of internationalization was based on psychic (i.e., perceptual) rather than cultural distance.

We also showed that results are not always consistent across different cross-cultural frameworks. For example, regarding entry mode decisions we found an insignificant effect of the Hofstede-based cultural distance, but a positive effect of cultural distance based on Globe or Schwartz. Similarly, the negative effect of cultural distance on establishment mode using Hofstede turns positive when using Globe. Finally, the negative effect of cultural distance on performance using Hofstede turns insignificant when using Globe. This raises the question which cross-cultural framework to use in cultural distance studies. It is beyond the scope of this paper to discuss the numerous methodological differences between these cross-cultural frameworks and their pros and cons (Beugelsdijk & Maseland, 2011; Schaffer & Riordan, 2003; Smith, 2006). Moreover, many management scholars are "users" of these frameworks and tend to be methodologically indifferent regarding which framework to use to measure cultural distance. Instead of suggesting which framework may be the preferred one, we take a more pragmatic approach.

One practical recommendation is to run the cultural distance analysis using multiple frameworks (e.g. Drogendijk & Slangen, 2006). This however raises the follow-up question what to do if results are not consistent, and how to attribute these findings to differences between these frameworks. An alternative solution is to treat these frameworks as complementary, each capturing part of the overall variation in cross-national cultural values (Steenkamp, 2001). Without a prior normative position on which framework is best, the optimal approach is then to combine all these frameworks in one composite cultural distance index. Beugelsdijk et al. (2017) have calculated such a composite cultural-distance index using the Mahalanobis correction to control for the correlation between the dimensions of the three frameworks. They find that the resulting cultural distance scores match the cultural classification of countries in specific cultural zones (Ronen & Shenkar, 2013). One key advantage of such a composite cultural distance index is that it simplifies the discussion what framework to use, and limits the possibility for researchers to "shop" for the result that best supports their hypothesis. Of course, the disadvantage of this approach is that it can only be used for a generic cultural distance argument and not to test distance effects on a specific cultural dimension. Our literature review showed that most studies are interested in exploring such a general cultural distance effect, and not the effect of distance on specific dimensions.

RQ3 concerned the possible contingences of home and host countries being developed or emerging markets. Our results suggest that cultural distance effects are very sensitive to sample structure. When the home country is an emerging market (e.g. India, Brazil or China), the negative effect of cultural distance on performance turns positive and insignificant. Alternatively, if the host country is an emerging market, the negative relation between cultural distance and performance becomes even more negative. In contrast, when the host country is a developed market (especially when it is the U.S.), the relation between cultural distance and - performance turns positive. There are two possible explanations for the moderating effects of home/host and emerging/developed country. It might be that emerging market MNEs actively seek "distant" locations to invest because they are usually associated with more competitive environments where these nascent global players can acquire technological capabilities and learn best practices. The benefits of operating in such distant places can outweigh the risks and costs of dealing with cultural differences. While our data again did not allow us to fully explore these alternative explanations, the results at least highlight this interesting contingency and present opportunities for future research.

Another possible explanation is methodological in nature. It might be that studies of cultural distance conflate distance with direct or level effects and the results that we see are not due to the difference between home and host country but are instead caused by the conditions (cultural or institutional) in the home or the host country. For example, going to a "failed state" or an emerging market with "institutional voids" might lead to negative outcomes regardless of whether the home country is culturally similar or distant from the host country. Distinguishing between distance and direct (or "level") effects is particularly problematic when distance studies include only one home or one host country (Brouthers et al., 2016). Thus, the suggestion to ideally have multiple home and hosts as to make sure level and distance effects are not conflated.

RQ4 concerned the impact of time. Our sample included primary studies published between 1988 and 2015 which allowed us to indirectly explore the longitudinal performance effects of cultural distance. We found that the effect of cultural distance on firm internationalization is relatively stable over time. This is in sharp contrast to the conclusion by Taras et al. (2012) (using different data and a different method) that Hofstede data are less and less able to explain cultural differences because they are outdated. Their interpretation is however at odds with our finding that results on cultural distance do not consistently depend on the use of Hofstede data or more recent data from alternative culture frameworks. More important perhaps is that our finding on the relatively stable effect of cultural distance over time does not imply that cultures do not change. As long as cultures change on parallel trajectories (as shown by Inglehart & Baker, 2000), cross-country cultural distances are relatively stable (Beugelsdijk et al., 2015). Here the question was whether the effect of cross-country cultural distance changes over time, and results suggest it does not, at least not in a significant way and not in a consistent direction.

Jointly, these findings provide a solid foundation and interesting insights for future research in this area. In addition to the several ideas that we discussed in the previous paragraphs, we would note the following. First, our review showed an interesting gap in the literature on cultural distance – there appears to be very little work examining its effects on managerial and organizational aspects of internationalization, both in an absolute sense, but also especially compared to the large number of studies on entry mode, establishment mode, and performance. For the few studies that address management aspects such as the benefits of the transfer of practices, we find large effect sizes of cultural distance. Although we cannot rule out the possibility that these large effect sizes are (partly) driven by the low number of primary studies available, we see this as a very promising area of future cultural distance research. We recommend future work to address an array of management related outcomes related to internationalization. We discussed transfer of practices but there are many other important aspects of integration and control of foreign operations that warrant attention including use of cross-cultural teams, organizational learning and innovation across subsidiaries and parent companies, and management of agency problems between parent companies and foreign operations (Kostova, Nell, & Hoenen, 2016). Second, we would encourage more in-depth studies of different types of distance on internationalization, particularly institutional and economic distance, and an examination of the relative salience of different types of distance for different outcomes. It is possible that cultural distance for example, is more tied to post-investment management integration while institutional distance is more critical in the pre-investment stages. Such extensions of research in this area will bring more definitive understanding of what particular context matters for what organizational outcomes. Finally, some of our findings raise questions, (if not provide insights) about the limitations and boundary conditions of existing internationalization theories. Do they apply equally to developed and emerging market MNCs, is the notion of distance possibly bound by the perspective of industrialized countries, and what are the remedies to distance in MNC management?

To conclude, cultural differences continue to be a serious consideration for managers and companies as they expand internationally. Understanding when and for which aspects of the internationalization process cultural differences really matter is a necessary step in learning how to manage and possibly leverage such differences.

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FOOTNOTES

1. Recently, these location choice models have been enriched in two ways. First, management scholars have incorporated insights from economic geography stressing the interdependencies between different locations in space (Beugelsdijk, McCann, & Mudambi, 2010; Beugelsdijk & Mudambi, 2013; Buckley & Ghauri, 2004; McCann & Folta, 2008). Second, the more recent shift towards behavioral and micro-foundations in strategy research has led to a renewed interest in cognitive underpinnings of location choice decisions (Foss & Lindenberg, 2013; Powell, Lovallo, & Fox, 2011; Aharoni, 1966, 2010; Maitland & Sammartino, 2015a, 2015b).

2. The third pillar of Williamson's TCE theory – frequency of the transaction is less used in entry mode studies for reasons of lack of theoretical applicability (Brouthers & Hennart, 2007).

3. w is calculated as follows: $w_i = \frac{1}{se_i^2 + \hat{v}_\theta}$, where SE is the standard error of the effect size and $\hat{v}_\theta$ is the random effects variance component, which is in turn calculated as: $s.e.(z_r) = \frac{1}{\sqrt{n-3}}$, and the formula of random effect variance is: $\hat{v}_\theta = \frac{Q_T - k - 1}{\sum w - \left(\frac{\sum w^2}{\sum w}\right)}$

4. The meta-analytic mean is calculated as follows: $\overline{ES} = \frac{\sum (w \times ES)}{\sum w}$, with its standard error: $se_{\overline{ES}} = \sqrt{\frac{1}{\sum w}}$, and with its 95% confidence interval computed as: $Lower = \overline{ES} - 1.96(se_{\overline{ES}})$, $Upper = \overline{ES} + 1.96(se_{\overline{ES}})$

FIGURE 1: Distribution of Cultural Distance Papers over Time

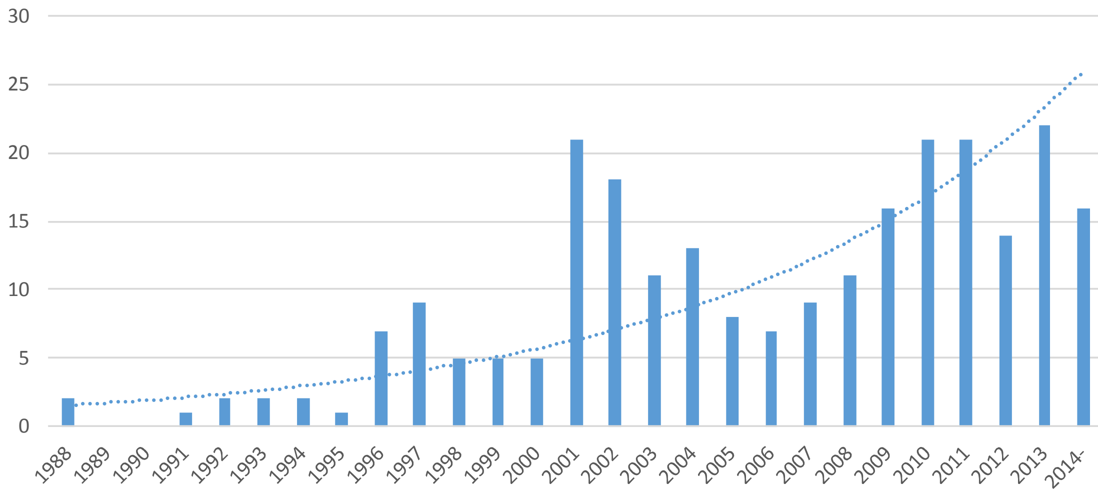


FIGURE 2: The Firm Internationalization Process Unpacked

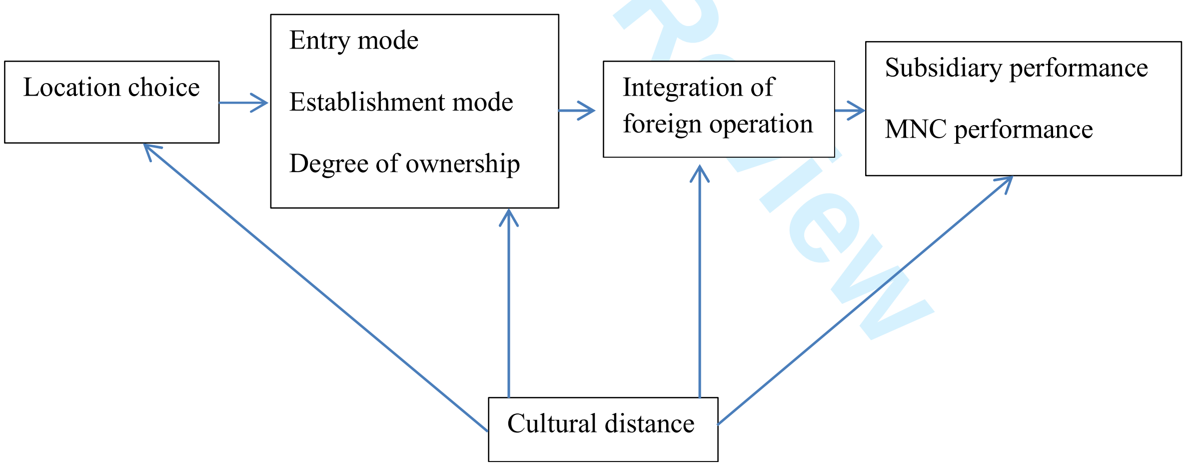
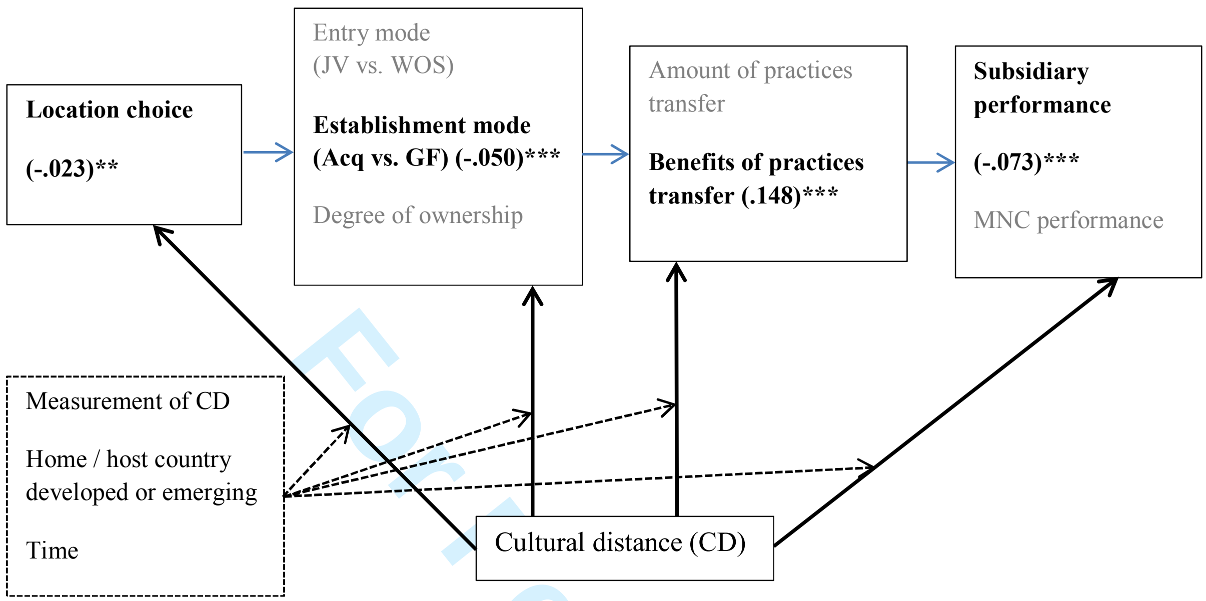


FIGURE 3: Summary Findings on Cultural Distance and the Process of Firm Internationalization



Note: The constructs in each of the four blocks (cf. Figure 1) are all dependent variables studied in our meta-analysis. Constructs in bold show significant relationships between cultural distance and the specific aspect of firm internationalization. We only report significant coefficients. The coefficient refers to the HOMA results reported in the different tables and their relative effect size can be interpreted in an absolute way.

TABLE 1: Comparison of Meta-Analyses on Firm-Level Consequences of Cultural Distance[a]

	Our meta-analysis	Zhao et al. (2004)	Tihanyi et al. (2005)	Magnusson et al. (2008)	Stahl & Voigt (2008)	Reus & Rottig (2009)	Morschett et al. (2010)
No studies included / K	156 / 437	14 / 15	55 / 66	61 / 72	16 / 31	40 / 37	14 / 37
Effect size data	Pearson's r and partial correlation $r_{xy.z}$	Pearson's r	Pearson's r	Pearson's r	Pearson's r	Pearson's r	Vote count
Time window	1988-2015	1988-2002	1992 – 2002	1991-2005	*NA*	1997-2007	1992-2008
Location choice	r- and $r_{xy.z}$-based mean: -0.023**	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Scale of investment	r- and $r_{xy.z}$-based mean: -0.006				*NA*	*NA*	*NA*
Entry mode	r- and $r_{xy.z}$-based mean: 0.003	r-based mean: -0.029***	r-based mean: -0.064	r-based mean: -0.036*	*NA*	*NA*	*VC mean*: -0.473 (ns)
Establishment mode	r- and $r_{xy.z}$-based mean: -0.050***	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Amount of practices transferred	r- and $r_{xy.z}$-based mean: 0.011	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Benefical if practices transferred	r- and $r_{xy.z}$-based mean: 0.148***	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Performance	r- and $r_{xy.z}$-based mean: -0.032***	*NA*	r-based mean: -0.035	r-based mean: -0.040**	*r-based mean: 0.01 (ns)* *r-based mean: -0.03***	r-based mean: −0.028***	*NA*
Moderators influencing the effect of CD on DVs	(single) home country USA; developed; emerging (single) host country USA; developed; emerging Firm identity subsidiary; MNC Time (Until median year; After median year)	Host country USA; Non-USA Home Country USA; Non-USA Industry Type Manufactoring; Service; Non-specified	Home country USA; Non-USA Host country developed; developing Industry high-tech; others Time 1980s; 1990s	Home country USA; non-USA; Europe; Asia Time prior to 1990; 1990-1995; after 1995	Degree of [industry] relatedness Low; medium; high	Host country China; non-China	Industry type Service; manufactoring Time Early; late
Methodological artifacts	Published study; median year; panel design; endogeneity check	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Model specification artifacts	Study controls for other distances; study controls for performance; partial correlation dummy	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Statistical artifacts – cultural distance	KSI/Euclidean distance; Mahanalobis distance; Cultural zone distance; Perceptual distance; other distance operationalization. Hofstede data (plus seperation of dimensions); GLOBE data; Schwartz; Trompenaars; Ronen & Shenkar data; other datasource.	Secondary data; Survey	Euclidean distance; Other	Individual measurement; National measurement	National; organizational	KSI; Subjective CD; Other	*NA*
Statistical artifacts - DVs	PERF accounting performance; market performance; survey performance; survival; innovation; other	ACI/EM binary; Equity ownership; categorical	*NA*	*NA*	PERF Announcement effects; longer-term effects; target firms; acquiring firms	PERF objective performance; subjective performance	*NA*

[a] CD = cultural distance; PERF = performance; ACI = amount of capital invested; EM = entry mode; ESTM = establishment mode; CE= choice to enter; ATP = amount of transfer practices; BTP = benefit of transfer practices; DV = dependent variable; NA = not available / not tested; ns = not significant; ***=sig with p<0.01; **=sig with p<0.05; *=sig with p<0.01.

TABLE 2: HOMA Meta-Analytic Results Cultural Distance to Location Choice

	Pearson product-moment correlation (*r*) and partial correlation coefficients ($r_{xy.z}$)					
Predictor	*K*	*N*	Mean (p-value)	SE	*Q* test	I^2
Cultural distance to Location Choice	34	2,441,680	-0.023 (0.034)**	0.011	8,086.78***	1.00
Measurement of Cultural Distance						
Kogut and Singh index	26	1,147,466	-0.020 (0.198)	0.015	5,663.34***	1.00
Mahanalobis	8	1,294,214	-0.036 (0.031)**	0.017	2,328.68***	1.00
Cultural Distance Data Source						
Hofstede	28	1,651,546	-0.024 (0.078)*	0.014	7,306.44***	1.00
Time						
Until medium year	21	618,377	0.000 (0.667)	0.005	284.89***	0.93
After medium year	13	1823,303	-0.050 (0.002)***	0.02	4,731.84***	1.00

Note: Location choice is measured as the 0/1 measure to invest in a particular country. Mean = mean effect sizes. P-value shows the exact p-value. *k* = number of effect sizes; *N* = total sample size; SE = the standard error of mean correlation; *Q* = Cochran's homogeneity test statistic; I^2 = scale-free index of heterogeneity. * p<0.10; ** p<0.05; *** p<0.01.

TABLE 3a: HOMA Meta-Analytic Results Cultural Distance to Entry Mode

	Pearson product-moment correlation (*r*) and partial correlation coefficients ($r_{xy.z}$)					
Predictor	*K*	*N*	Mean (p-value)	SE	*Q* test	I^2
Cultural distance to Entry Mode	119	92,923	0.003 (0.809)	0.010	931.57***	0.87
Measurement of Cultural Distance						
Kogut and Singh index	86	80,022	-0.014 (0.238)	0.012	686.78***	0.88
Cultural Distance Data Source						
Hofstede	99	74,347	-0.017 (0.154)	0.012	796.19***	0.88
Four Dimensions	69	60,135	-0.023 (0.059)*	0.012	401.99***	0.83
Five Dimensions	7	3,370	0.014 (0.889)	0.103	197.15***	0.97
Power Distance Dimension	5	2,221	-0.029 (0.673)	0.068	34.09***	0.88
Uncertainty Avoidance Dimension	5	2,221	0.021 (0.319)	0.021	7.96*	0.50
Individualism Dimension	5	2,221	-0.098 (0.049)**	0.050	17.95***	0.78
Masculinity Dimension	5	2,221	0.003 (0.946)	0.041	12.00***	0.67
GLOBE	14	17,244	0.079 (0.001)***	0.024	85.45***	0.85
Schwartz	5	1,194	0.170 (0.000)***	0.029	6.75	0.41
Time						
Until medium year	63	36,495	-0.056 (0.001)***	0.017	537.90***	0.88
After medium year	56	56,428	0.070 (0.000)***	0.01	258.37***	0.79

Note: Entry mode is operationalized as WOS taking a 1 (JV = 0). Results for Perceptual measures and Primary data are based on similar primary studies. For reasons of completeness we have included them in both the measurement as well as the data category. Mean = mean effect sizes. P-value shows the exact p-value. *k* = number of effect sizes; *N* = total sample size; SE = the standard error of mean correlation; *Q* = Cochran's homogeneity test statistic; I^2 = scale-free index of heterogeneity. * p<0.10; ** p<0.05; *** p<0.01.

TABLE 3b: HOMA Meta-Analytic Results Cultural Distance to Establishment Mode

	Pearson product-moment correlation (r) and partial correlation coefficients ($r_{xy.z}$)					
Predictor	*K*	*N*	Mean (p-value)	SE	*Q* test	I^2
Cultural distance to Establishment Mode	95	46,184	-0.050 (0.000)***	0.014	735.30***	0.87
Measurement of Cultural Distance						
Kogut and Singh index	67	36,261	-0.069 (0.000)***	0.016	550.61***	0.88
Dummy variable	16	6,528	-0.007 (0.792)	0.028	65.06***	0.77
Perceptual measures	3	630	-0.100 (0.012)**	0.040	5.62*	0.64
Cultural Distance Data Source						
Hofstede	66	36,882	-0.067 (0.000)***	0.016	557.97***	0.88
Schwartz	6	1,232	-0.076 (0.403)	0.091	50.04***	0.90
Primary Data	3	630	-0.100 (0.012)**	0.040	5.62*	0.64
Ronen & Shenkar	16	6,528	-0.007 (0.792)	0.028	65.06***	0.77
Time						
Until medium year	53	37,437	-0.050 (0.003)***	0.016	439.51***	0.88
After medium year	42	8,747	-0.050 (0.072)*	0.029	295.23***	0.86

Note: Establishment mode is operationalized as acquisition taking a 1 (greenfield = 0). Results for Perceptual measures and Primary data are based on similar primary studies. For reasons of completeness we have included them in both the measurement as well as the data category. Mean = mean effect sizes. P-value shows the exact p-value. * p<0.10; ** p<0.05; *** p<0.01.

TABLE 4: HOMA Meta-Analytic Results Cultural Distance to Degree of Ownership

	Pearson product-moment correlation (r) and partial correlation coefficients ($r_{xy.z}$)					
Predictor	K	N	Mean (p-value)	SE	Q test	I^2
Cultural distance to Degree of Ownership	90	463,008	-0.006 (0.490)	0.009	1,930.77***	0.95
Measurement of Cultural Distance						
Kogut and Singh index	58	444,796	-0.005 (0.597)	0.010	1,845.58***	0.97
Dummy variable	16	13,816	0.001 (0.969)	0.014	31.96***	0.53
Perceptual measures	12	1,476	0.004 (0.936)	0.047	32.72***	0.66
Cultural Distance Data Source						
Hofstede	61	341,295	-0.008 (0.478)	0.011	1,826.10***	0.97
Four Dimensions	47	315,066	0.000 (0.967)	0.012	1,314.07***	0.96
Five Dimensions	4	721	0.053 (0.157)	0.037	1.23	0.00
Uncertainty Avoidance Dimension	4	7,472	-0.080 (0.303)	0.078	84.38***	0.96
Individualism Dimension	4	7,472	-0.039 (0.752)	0.124	214.59***	0.99
Primary Data	12	1,476	0.004 (0.936)	0.047	32.72***	0.66
Ronen & Shenkar	16	13,816	0.001 (0.969)	0.014	31.96***	0.53
Time						
Until medium year	46	392,760	-0.002 (0.830)	0.011	1,240.67***	0.96
After medium year	44	70,248	-0.009 (0.526)	0.02	591.12***	0.93

Note: Degree of ownership measures the size of the foreign investment. Results for Perceptual measures and Primary data are based on similar primary studies. For reasons of completeness we have included them in both the measurement as well as the data category. Mean = mean effect sizes. P-value shows the exact p-value. k = number of effect sizes; N = total sample size; SE = the standard error of mean correlation; Q = Cochran's homogeneity test statistic; I^2 = scale-free index of heterogeneity. * p<0.10; ** p<0.05; *** p<0.01.

TABLE 5a: HOMA Meta-Analytic Results Cultural Distance to Amount of Transfer

	Pearson product-moment correlation (r) and partial correlation coefficients ($r_{xy.z}$)					
Predictor	K	N	Mean (p-value)	SE	Q test	I^2
Cultural distance to Amount of Transfers	47	171,990	0.011 (0.442)	0.040	1,522.60***	0.97
Measurement of Cultural Distance						
Kogut and Singh index	42	171,420	0.045 (0.001)***	0.014	1,287.00***	0.97
Perceptual measures	5	570	-0.615 (0.021)**	0.266	147.56***	0.97
Cultural Distance Data Source						
Hofstede	40	170,928	0.047 (0.001)***	0.014	1,285.73***	0.97
Four Dimensions	37	157,848	0.052 (0.000)***	0.015	1,210.22***	0.97
Primary Data	5	570	-0.615 (0.021)**	0.266	147.56***	0.97
Time						
Until medium year	32	153,792	0.050 (0.001) ***	0.015	1,199.32***	0.97
After medium year	15	18,198	-0.139 (0.000)***	0.038	259.01***	0.95

Note: Amount of transfers deals with the amount of knowledge has been transferred or acquired. Results for Perceptual measures and Primary data are based on similar primary studies. For reasons of completeness we have included them in both the measurement as well as the data category. Mean = mean effect sizes. P-value shows the exact p-value. k = number of effect sizes; N = total sample size; SE = the standard error of mean correlation; Q = Cochran's homogeneity test statistic; I^2 = scale-free index of heterogeneity. * p<0.10; ** p<0.05; *** p<0.01.

TABLE 5b: HOMA Meta-Analytic Results Cultural Distance to Benefits of Transfers

	Pearson product-moment correlation (r) and partial correlation coefficients ($r_{xy.z}$)					
Predictor	*K*	*N*	Mean (pvalue)	SE	*Q* test	I^2
Cultural distance to Benefits of transfers	18	3,589	0.148 (0.000)***	0.029	50.50***	0.66
Measurement of Cultural Distance						
Kogut and Singh index	15	3,232	0.177 (0.000)***	0.028	34.92***	0.60
Perceptual measures	3	357	-0.025 (0.479)	0.053	3.88	0.48
Cultural Distance Data Source						
Hofstede	5	1,380	0.078 (0.004)***	0.027	8.90	0.55
GLOBE	10	1,852	0.231 (0.000)***	0.023	7.55	0.00
Primary Data	3	357	-0.025 (0.545)	0.053	3.88	0.48
Time						
Until medium year	12	2,008	0.196 (0.000***	0.035	26.88	0.59
After medium year	6	1,581	0.080 (0.027)**	0.034	9.02	0.45

Note: Benefits of transfers deals with the degree to which a (knowledge) transfer has been beneficial for the vocal entity.. Results for Perceptual measures and Primary data are based on similar primary studies. For reasons of completeness we have included them in both the measurement as well as the data category. Mean = mean effect sizes. P-value shows the exact p-value. *k* = number of effect sizes; *N* = total sample size; SE = the standard error of mean correlation; *Q* = Cochran's homogeneity test statistic; *I2* = scale-free index of heterogeneity. * p<0.10; ** p<0.05; *** p<0.01.

TABLE 6: HOMA Meta-Analytic Results Cultural Distance to Performance

	Pearson product-moment correlation (r) and partial correlation coefficients ($r_{xy.z}$)					
Predictor	*K*	*N*	Mean (p-value)	SE	*Q* test	I^2
Cultural distance to Performance	437	913,260	-0.032 (0.000)***	0.005	7,126.47***	0.94
Measurement of Cultural Distance						
Kogut and Singh index	267	821,834	-0.035 (0.000)***	0.005	4,140.89***	0.94
Mahalanobis distance	6	42,269	-0.028 (0.000)***	0.005	2.98	0.00
Dummy variable	51	8,199	-0.049 (0.034)**	0.023	212.29***	0.76
Perceptual measures	40	7,673	-0.211 (0.000)***	0.047	639.67***	0.94
Cultural Distance Data Source						
Hofstede	324	839,576	-0.015 (0.003)***	0.006	5,885.53***	0.95
Four Dimensions	240	815,150	-0.030 (0.000)***	0.006	4,061.10***	0.94
Five Dimensions	20	5,444	-0.080 (0.000)***	0.018	30.86**	0.38
Power Distance Dimension	11	2,575	-0.021 (0.276)	0.020	9.85	0.00
Uncertainty Avoidance Dimension	14	3,409	-0.038 (0.027)**	0.017	18.24	0.29
Individualism Dimension	12	3,305	-0.003 (0.937)	0.032	26.83***	0.59
Masculinity Dimension	11	2,575	-0.038 (0.258)	0.033	20.26**	0.51
GLOBE	9	3,680	0.015 (0.708)	0.040	23.94***	0.67
Ronen & Shenkar	57	12,993	-0.041 (0.043)**	0.020	255.48***	0.78
Trompenaars	2	264	-0.206 (0.001)***	0.062	2.99*	0.67
Primary Data	40	7,673	-0.210 (0.000)***	0.047	639.67***	0.94
Performance types						
Accounting Performance	60	84,578	-0.023 (0.032)**	0.011	311.21***	0.81
Market Performance	72	17,232	0.032 (0.387)	0.037	1,595.45***	0.96
Survey Performance	119	130,697	-0.051 (0.000)***	0.008	477.07***	0.75
Survival	95	410,861	-0.049 (0.000)***	0.007	986.74***	0.90
Innovation	39	176,750	0.032 (0.065)*	0.017	2,016.16***	0.98
Other	52	93,142	-0.125 (0.000)***	0.016	975.42***	0.95
Firm identity						
MNC	157	303,590	0.017 (0.106)	0.011	4,369.65***	0.96
Subsidiary	231	569,163	-0.073 (0.000)***	0.006	2,610.52***	0.91
Home country type						
USA	52	57,951	-0.034 (0.288)	0.032	2,318.39***	0.98
Developed Markets	185	651,779	-0.041 (0.000)***	0.007	3,605.40***	0.95
Emerging Markets	31	19,152	0.014 (0.425)	0.018	83.18***	0.64
Host country type						
USA	21	5,667	0.057 (0.065)*	0.031	101.53***	0.80
Developed Markets	41	12,224	0.039 (0.096)*	0.023	189.31***	0.79
Emerging Markets	109	28,214	-0.115 (0.000)***	0.018	964.90***	0.89
Time						
Until medium year	234	766,672	-0.022(0.000)***	0.006	3,429.88***	0.93
After medium year	203	146,588	-0.043(0.000)***	0.012	3,546.59***	0.94

Note: Mean = mean effect sizes. P-value shows the exact p-value. *k* = number of effect sizes; *N* = total sample size; SE = the standard error of mean correlation; *Q* = Cochran's homogeneity test statistic; I^2 = scale-free index of heterogeneity. * p<0.10; ** p<0.05; *** p<0.01.

TABLE 7: HOMA Meta-Analytic Results Cultural Distance to Performance[a]

	Pearson product-moment correlation (r)						Partial correlation coefficient ($r_{xy.z}$)					
Predictor	*K*	*N*	Mean (p-value)	SE	*Q* test	I^2	*K*	*N*	Mean (p-value)	SE	*Q* test	I^2
CD to performance	162	216,961	-0.034 (0.002)***	0.011	3,140.59***	0.95	275	696,299	-0.031 (0.000)***	0.006	3,984.33***	0.93
Measurement of CD												
Euclidean (Kogut and Singh) distance	105	185,530	-0.026 (0.054)*	0.014	2,971.85***	0.97	162	636,304	-0.037 (0.000)***	0.005	1,168.35***	0.86
Mahalanobis distance	3	20,967	-0.034 (0.000)***	0.007	0.75	0.00	3	28,302	-0.024 (0.000)***	0.006	1.01	0.00
Cultural zone distance (dummy)	6	420	-0.032 (0.516)	0.049	1.63	0.00	45	7,779	-0.052 (0.041)**	0.025	210.60***	0.79
Perceptual distance	16	6,192	-0.181 (0.000)***	0.032	33.07***	0.55	24	5,381	-0.231 (0.001)***	0.071	605.37***	0.96
Cultural distance data source												
Hofstede	131	190,012	-0.022 (0.074)*	0.013	3,000.91***	0.96	193	649,564	-0.012 (0.020)**	0.006	2,884.58***	0.93
Four dimensions	89	179,394	-0.030 (0.042)**	0.016	2,935.38***	0.97	151	635,756	-0.031 (0.000)***	0.005	1,124.61***	0.87
Five dimensions	10	2,966	-0.044 (0.016)**	0.018	15.04*	0.40	10	2,478	-0.129 (0.000)***	0.020	6.17	0.00
Power distance dimension	7	1,328	-0.037 (0.172)	0.027	6.05	0.01	4	1,247	-0.004 (0.918)	0.028	3.10	0.03
Uncertainty avoidance dimension	9	2,110	-0.017 (0.438)	0.022	5.48	0.00	5	1,299	-0.055 (0.309)	0.054	10.34**	0.61
Individualism dimension	8	2,058	-0.028 (0.507)	0.042	15.94**	0.56	4	1,247	0.040 (0.499)	0.060	9.53**	0.69
Masculinity dimension	7	1,328	0.015 (0.698)	0.027	9.02	0.33	4	1,247	-0.089 (0.009)***	0.028	4.31	0.30
GLOBE	5	3,108	-0.016 (0.768)	0.053	13.19**	0.70	4	572	0.012 (0.863)	0.072	8.71**	0.66
Ronen & Shenkar	7	645	0.032 (0.421)	0.039	6.47	0.07	50	5,381	-0.046 (0.033)**	0.021	247.76***	0.80
Primary data	16	2,292	-0.181 (0.000)***	0.032	33.07***	0.55	24	12,348	-0.231 (0.001)***	0.071	605.37***	0.96
Performance types												
Accounting Performance	40	75,171	-0.038 (0.002)***	0.012	189.54***	0.79	20	9,407	0.011 (0.685)	0.026	113.23***	0.83
Market Performance	20	2,607	-0.006 (0.760)	0.020	17.99	0	52	14,625	0.046 (0.319)	0.047	1,541.81***	0.97
Survey Performance	66	39,665	-0.063 (0.000)***	0.017	253.73***	0.74	53	91,032	-0.043 (0.000)***	0.010	204.93***	0.75
Survival	6	32,902	0.052 (0.105)	0.032	48.96***	0.90	89	377,959	-0.058 (0.000)***	0.008	870.37***	0.90
Innovation	8	29,436	0.125 (0.153)	0.087	1491.35***	1.00	31	147,314	0.005 (0.351)	0.005	127.07***	0.76
Other	22	37,180	-0.081 (0.000)***	0.023	270.97***	0.92	30	55,962	-0.156 (0.000)***	0.024	703.59***	0.96
Firm identity												
MNC	63	123,987	0.004 (0.839)	0.021	2,349.96***	0.97	94	179,603	0.027 (0.026)**	0.012	2,013.72***	0.95
Subsidiary	84	90,702	-0.062 (0.000)***	0.014	728.21***	0.89	147	478,461	-0.077 (0.000)***	0.007	1,880.86***	0.92
Home country												
USA	21	24,562	0.005 (0.947)	0.072	1,950.98***	0.99	31	33,389	-0.038 (0.026)**	0.017	116.58***	0.74
Developed markets	58	153,247	-0.013 (0.543)	0.021	2,648.95***	0.98	127	498,532	-0.049 (0.000)***	0.006	955.57***	0.87

Emerging markets	17	14,154	-0.007 (0.756)	0.024	32.16***	0.50	14	4,998	0.040 (0.092)*	0.024	27.45**	0.53
Host country												
USA	7	3,063	-0.018 (0.738)	0.054	47.81***	0.87	14	2,604	0.099 (0.000)***	0.021	14.91	0.13
Developed markets	23	9,169	-0.004 (0.885)	0.027	79.53***	0.72	18	3,055	0.072 (0.068)*	0.039	77.42***	0.78
Emerging markets	49	8,465	-0.105 (0.000)***	0.024	231.07***	0.79	60	19,749	-0.121 (0.000)***	0.026	729.78***	0.92
Time												
Until medium year	83	163,928	-0.013 (0.453)	0.02	2,775.79***	0.97	145	597,023	-0.012 (0.001)***	0.004	595.55***	0.76
After medium year	79	53,033	-0.05 (0.000)***	0.01	297.58***	0.74	130	99,276	-0.039 (0.02)**	0.017	3,289.25***	0.96

Note: Mean = mean effect sizes. P-value shows the exact p-value. *k* = number of effect sizes; *N* = total sample size; SE = the standard error of mean correlation; *Q* = Cochran's homogeneity test statistic; I^2 = scale-free index of heterogeneity. * p<0.10; ** p<0.05; *** p<0.01.

TABLE 8: MARA Meta-Analytic Results Cultural Distance to Performance

Variable	Model 1	Model 2	Model 3
Measurement of Cultural Distance			
Kogut and Singh index	-0.25 (0.000)***		-0.36 (0.000)***
Mahalanobis distance	-0.32 (0.000)***		-0.37 (0.001)***
Dummy variable	-0.24 (0.000)***		-0.05 (0.207)
Perceptual measures	-0.45 (0.000)***		-0.44 (0.000)***
Absolute distance	-0.26 (0.000)***		-0.37 (0.000)***
Other (ref group)			
Cultural Distance Data Source			
Hofstede		0.20 (0.000)***	0.12 (0.174)
Berry		0.12 (0.015)**	0.04 (0.783)
GLOBE		0.27 (0.000)***	0.20 (0.033)**
Ronen & Shenkar		0.20 (0.000)***	-0.20 (0.06)*
Primary Data (ref group)			
Firm performance definition			
Accounting measures	0.09 (0.000)***	0.08 (0.000)***	0.08 (0.000)***
Market performance	0.05 (0.057)*	0.10 (0.000)***	0.02 (0.479)
Survey measures	0.04 (0.019)**	0.06 (0.004)***	0.03 (0.103)
Survival	0.07 (0.005)***	0.10 (0.000)***	0.08 (0.001)***
Innovation	0.10 (0.000)***	0.06 (0.039)*	0.11 (0.000)***
Other (reference group)			
Performance evaluation			
MNC	-0.13 (0.000)***	-0.14 (0.000)***	-0.13 (0.000)***
Subsidiary	-0.15 (0.000)***	-0.15 (0.000)***	-0.15 (0.000)***
Methodological study artifacts			
Published study	0.03 (0.143)	0.04 (0.05)*	0.03 (0.190)
Median year of sample window	0.00 (0.686)	0.00 (00.31)	-0.00 (0.249)
Panel design	0.01 (0.731)	0.05 (0.009)***	-0.02 (0.180)
Endogeneity check	0.00 (0.915)	-0.06 (0.02)**	0.01 (0.713)
Home country type			
Developed Markets	-0.01 (0.766)	-0.03 (0.123)	0.00 (0.958)
Emerging Markets	0.04 (0.113)	-0.00 (0.931)	0.05 (0.057)*
Host country type			
Developed Markets	0.07 (0.01)**	0.03 (0.306)	0.06 (0.031)**
Emerging Markets	-0.05 (0.04)**	-0.09 (0.000)***	-0.04 (0.078)*
Model specification artifacts			
Distance controls	-0.01 (0.119)	-0.02 (0.068)*	-0.00 (0.703)
Performance controls	-0.06 (0.024)**	-0.11 (0.000)***	-0.07 (0.004)***
Partial correlation	-0.00 (0.879)	0.02 (0.208)	-0.01 (0.441)
K	437	437	437
R^2	0.29	0.23	0.32
$Q_{\text{model}}(p)$	420.93 (0.00)	311.74 (0.00)	473.10 (0.00)
$Q_{\text{residual}}(p)$	1,015.56 (0.00)	1,064.04 (0.00)	997.14 (0.00)
V	0.00661	0.00705	0.00637

Note: The table shows estimated coefficients and p-values between parentheses. * p<0.10; ** p<0.05; *** p<0.01

APPENDIX A

Selection of Quotes from Cultural Distance and Firm Internationalization Studies

The arguments for an effect of cultural distance on location choice	Quote from:
The more culturally different[..], the higher transaction <u>costs</u> and perceived <u>uncertainty</u> incurred to multinationals	Zheng et al, 2012: p. 7
Larger [cultural distance] can similarly lead to greater information <u>costs</u>, also reducing the attractiveness of foreign investment	Jiang et al., 2014: p. 347
Cultural distance is considered a major barrier for multinationals gaining normative <u>legitimacy</u> in host countries, thus affecting FDI location choice	Quer et al., 2012: p. 1093
Typically, investment in a market that is farther from home and more culturally distant increases <u>costs</u> associated with logistics, communication, language, and cross-cultural management	Rose & Ito, 2008: p. 872

The arguments for an effect of cultural distance on entry mode (JV vs WOS) and establishment mode (Acq vs GF)	Quote from:
The higher flexibility associated with JVs is particularly beneficial to MNE investing in culturally distant countries, because entries into such countries generally involve higher levels of external <u>uncertainty</u>	Slangen & van Tulder, 2009: p. 278
To minimize the adverse effects of managing in inherently different environments, firms should acquire the knowledge that allows them to conduct business in the host country. Because such knowledge may be difficult to describe and is often tacit, the <u>cost</u> of acquiring it may be very high. This may encourage a foreign investor to prefer a joint venture with a local firm.	Tatoglu et al. 2003: p. 15
[..] cultural distance can result in multinationals' perception of <u>uncertainty</u> and hassle associated with managing local culturally sensitive topics [..]	Tseng & Lee, 2010: p. 411
As CD increases, the <u>uncertainty</u> perceived by the parent firm, the <u>difficulty</u> of transferring home-based management practices to the host country, and information <u>costs</u> all increase.	Wang & Schaan, 2008: p. 265
Foreign market entry through a JV entails <u>costs</u> and <u>uncertainties</u> for a firm such as searching for partners, negotiating and enforcing agreements, sharing knowledge and ownership advantages with partners[..] The greater the cultural distance, the higher these costs and uncertainties are likely to be.	Wang & Schaan, 2008: p. 265
A joint venture may also be the preferred alternative if a merger or complete acquisition increases management <u>costs</u> to unacceptable levels, which is particularly likely to happen if cultural differences between parties are very large	Benito, 1996: p. 166
Firms entering markets with small cultural differences perceive low levels of country <u>risk</u> and thus use greenfield ventures, maximizing firm-specific advantages. Conversely, firms entering markets characterized by large cultural differences tend to perceive high levels of country risk and therefore prefer to use acquisitions, reducing the risks	Brouthers & Brouthers, 2000: p. 91
[..] large distances would increase internal <u>uncertainty</u>; which in turn would encourage managers to seek lower control entry modes, such as joint ventures.	Dow & Ferencikova, 2010: p. 49
A joint venture resolves the foreign partner's problems ensuing from cultural factors, though at the <u>cost</u> of sharing control and ownership. Unquestionably, a joint venture is affected by the cultural distance between the partners.	Kogut & Singh, 1988: p. 414
The larger the cultural distance to the target country, the more incompatible the practices and values of employees of acquired subsidiaries will be with those of their MNC acquirers (Cho & Padmanabhan, 1995), causing the management <u>costs</u> of acquired subsidiaries to increase substantially with cultural distance.	Slangen & Hennart, 2008: p. 474
MNCs can staff their greenfield subsidiaries with personnel who fit their culture reasonably well, and can introduce their practices in such subsidiaries without having to abolish divergent established practices first (Hennart & Park, 1993; Kogut & Singh, 1988). Consequently, the <u>costs</u> of managing greenfields will increase only marginally with cultural distance	Slangen & Hennart, 2008: p. 474
post-acquisition integration requires interactions between workforces from different cultures.	Drogendijk &

Given that inter-firm communication is culture-specific[..], these interactions are likely to be problematic and to cause negative feelings and attitudes among employees, resulting in poor acquisition performance	Slangen, 2006: p. 365
it is much easier for MNCs to integrate greenfield investments made in culturally distant countries, as greenfields enable MNCs to introduce their organizational and managerial practices from the outset, without being faced with existing ones, and to carefully select and hire employees who fit their national culture	Drogendijk & Slangen, 2006: p. 365
The greater the cultural distance between the parent's home country and the target country of the investment, the greater the expected differences in corporate cultures and management practices. […] Thus, the expectation is that acquisition will be more difficult in the presence of greater cultural differences between the two countries.	Larimo, 2003: p. 796

The arguments for an effect of cultural distance on integration of foreign operation	Quote from:
[..]significant cultural differences are likely to be associated with social conflict, that is inter-group tensions ranging from different opinions to mistrust and open confrontation	Vaara et al., 2012: p. 5
[..] a greater cultural distance makes it more likely that the target firm will have capabilities that are significantly different from the acquirer's own set; thus, ceteris paribus complementarities are more likely to exist.	Vaara et al., 2012: p. 6
The characteristics of the resource knowledge require a deep and common ground of understanding between the parties involved in order to extract knowledge that is useful for the recipient	Ambos & Ambos, 2009: p. 4
With increasing cultural distance and national differences between a focal team and a target subsidiary, the level of comfort and trust is likely to decrease, making it more difficult to work together	Hansen & Lovas, 2004: p. 803
[..] as the cultural distance [..] increases, it would become more difficult and costlier to assess the abilities of foreign employees and monitor their performance in the recipient country due to higher information cost and [..] the transfer would encounter greater knowledge barriers regarding local political, cultural and societal norms in culturally distant countries	Cho & Lee, 2004: p. 439

The arguments for an effect of cultural distance on performance	Quote from:
Cultural distance increases both the difficulty of understanding and interpreting local requirements and the extent of the adjustments required in order to compete successfully in foreign environments	Nachum, 2003: p. 1193
cultural alikeness facilitates better coordination and control between firms, since like mindsets induce similar expectations	Merchant & Schendel, 2000: p. 727-728
This [less cultural distance] helps to develop common values and norms and intensify much-needed socialization and trust building to better materialize the role of procedural justice in cooperation, especially to better streamline the cooperation process	Luo, 2008: p. 33
Cultural distance adversely affects international joint ventures by eroding the applicability of the parent's competencies	Barkema et al., 1997: p. 428
cultural […] conditions hinder the applicability and transfer of knowledge, because MNC managers may use knowledge gained from previous acquisitions […] but this knowledge may be of lesser value in the culturally dissimilar environment	Uhlenbruck, 2004: p. 112-113
cultural distance between IJV partners can be a source of misunderstanding and miscommunication	Makino et al., 2007: p. 1120

APPENDIX B

List of Primary Studies Included

Abdi, M. & Aulakh, P.S. 2012. Do country-level institutional frameworks and interfirm governance arrangements substitute or complement in international business relationships? *Journal of International Business Studies*, 43(5): 477-497.

Ahuja, G. & Katila, R. 2001. Technological acquisitions and the innovation performance of acquiring firms: A longitudinal study. *Strategic Management Journal*, 22(3): 197-220.

Ambos, T.C. & Ambos, B. 2009. The impact of distance on knowledge transfer effectiveness in multinational corporations. *Journal of International Management*, 15(1): 1-14.

Anand, J. & Delios, A. 1997. Location specificity and the transferability of downstream assets to foreign subsidiaries. *Journal of International Business Studies*, 28(3): 579-603.

Ando, N. & Paik, Y. 2013. Institutional distance, host country and international business experience, and the use of parent country nationals. *Human Resource Management Journal*, 23(1): 52-71.

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