The Role of Cultural Factors in Determining Foreign Direct Investments in China

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Introduction

Background of the study

*Foreign direct investments in China.* China decided to adopt the Open-Door Policy in 1978, leading to a mass of foreign firms attempting to establish footing in the country (Reid & Walsh, 2003). Since then China became the largest recipient of foreign direct investment inflow in 2003 (OECD, 2004). A large contributor to this was China’s accession to the WTO, which further broke several regional and political barriers in China to allow a less restricted inflow of FDI (Reid & Walsh, 2003). As shown from the data provided by the Ministry of Commerce of People’s Republic of China in Figure 1, we can note that China persistently continues to be a major recipient of foreign direct investment. The data displays a 7.9% rise of realized foreign direct investments in China between the first two quartiles of 2014 and the first two quartiles of 2015. (MOFCOM, 2015)

Foreign direct investments to China can be roughly distributed to two different choices of entry modes: joint ventures and wholly owned subsidiaries. Current literature tends to focus on either of the modes mentioned above (Deng, 2003). Statistically, joint ventures and wholly owned subsidiaries consist a total of 80% of foreign direct investments targeted to the Chinese market (Wei, Liu, Liu 2004). According to the China’s Ministry of Foreign Trade and Economic Cooperation (2015), foreign investors are generally allowed to freely choose their desired entry mode.

![Figure 1. Realized FDI in China in billions of US dollars (MOFCOM, 2015)](image)

Since the Open-Door Policy was established in the year 1978, joint ventures have become the dominant form of entry until the year 1996. This was the desired policy by the Chinese Central Government at the time (Bing, 2012). However, since 1996 wholly owned subsidiaries have been growing largely. This can be explained largely by two factors: foreign investors have experienced a paradigmatic change in their entry mode choice decision-making (Deng, 2003; Almanac of China’s Foreign Eco-
onomic Relations and Trade, 2002) and the rule-bending behaviour of local officers. This behaviour can be explained by the effort of local officers to maximize investment-driven short-term economic growth (Bing, 2011).

However, in this study we will attempt to distinguish how cultural factors have possibly affected the selection of ownership modes in FDI. Several different studies have argued that culture plays a significant factor in foreign direct investments (Kogut & Singh, 1988; Brouthers & Brouthers, 2001; Makino & Neupert, 2001). As studies of culture have become increasingly significant, the importance of aligning a company’s foreign direct investment strategy with the host country seems to play a larger factor in the success rate of an FDI. (Makino & Neupert, 2000; Hofstede, 2001, 363-371.)

Figure 2 by Euromonitor International (2015) displays countries by the amount of industries in the country. The market size of countries is a significant component of creating sustainable competitive value, as operating in a larger market has the ability to derive competitive advantage to companies (Porter, 1990, 73-93). Another important factor for companies to enter a large foreign market is to restrict the possible opportunities of competitors (Walsh, 1997).

The following chart implies that in total, China has 241 largest industries in size, making it the second largest industry in the world and a significant factor in international business. As demonstrated by the size of the Chinese market coupled with a fast growth rate and massive population, China is a lively and major player within the field of international business. However, as several multinational corporations have faced notable problems and disappointments, it raises the question if internationalization methods to China should be analysed by a more systematic and comprehensive approach. (Reid & Walsh, 2003; Yip, 2000)

![Figure 2. Amount of industries largest in the country (Euromonitor Int., 2015)](image-url)
Reasoning for selected cultural framework. There have been several different frameworks developed to assess the business environments’ cultural aspects. The most collective aspect of these models is the conceptual development of dimensions to assess cultures. These dimensions have been created with the idea of utmost simplicity and generic usability. However, the model scientific value has varied model to model, and the actual operational usability of the models itself has been very different as well. (Yeganeh, 2011)

Geert Hofstede created the most recognized and scientifically used model in 1980 (Pinto et al., 2014). The theorem was originally a study created for IBM, which further on was interpreted to five specific cultural dimensions and a country specific cultural index. The different dimensions are power distance, uncertainty avoidance, individualism and collectivism, masculinity and femininity and long-term orientation (Hofstede, 2001). He suggests that cultures values are stable and robust, therefore cultural transformation does not have significant value on countries deepest values. (Hofstede, 2001, 1-36)

Hofstede’s theories have been developed into an even more advanced theorem: the GLOBE theory (House et al, 2004). Most of this theorem has been directly plucked from Hofstede’s (1980, 2001) studies and the rest has been applied from Klückhohn and Strodtbeck’s studies (Taras et al, 2010). However, as the theorem applies significant importance on dimensions such as “performance orientation” and “organizational collectivism”, this makes it more of a study on organizational culture. This has also led to the fact that it hasn’t been scientifically validated on a larger scale (Yeganeh, 2011).

A cultural study developed by Schwartz (1992, 1995) divides country specific cultures to three distinct dimensions. Schwartz’s theorem has gained a high scientific validity, but it significantly overlaps its dimensions with Hofstede’s dimensions (1980). The development of a conceptual model combining these two models could be a significant possibility for future studies, but in this thesis it won’t be discussed due to our scope of limitations.

Kogut and Singh (1980) have also created their own interpretation of a country’s culture, which includes a widely employed mathematical index in international business (Berry et al., 2010, Shenkar, 2001). However, a large amount of recent empirical research has led to inconsistent findings and large deviations within the mathematic model (Berry et al., 2010; Kim & Gray 2009; Yeganeh & Su, 2006; Kirkman et al., 2006; Tihanyi et al., 2005; Shenkar, 2001). Also, here we must note that Kogut & Singh’s (1980) mathematic index has been created as a deviation from four of Hofstede’s national cultural dimensions (Yeganeh, 2011). The theorems and mathematic implications generated by other scholars can be more specifically described as a certain application of Hofstede’s (1980) cultural theory and dimensions, whereas Hofstede’s work created a basis for other studies. (Pinto, et al. 2014).

A study conducted by Pinto, et al (2014) that included the bibliometric examination of 502 relevant scientific articles discussing culture and cultural distance from the seven leading international business journals has shown that Hofstede’s work is by far the most cited work within cultural studies in business. In total, the works by Hof-
Hofstede accounted for a sum of 78.2% of all citations within this study, as demonstrated in figure 3. (Pinto et al. 2014)

<table>
<thead>
<tr>
<th>N of citations</th>
<th>Reference</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>348</td>
<td>Hofstede (1980)</td>
<td>69.3</td>
</tr>
<tr>
<td>134</td>
<td>Kogut and Singh (1988)</td>
<td>26.7</td>
</tr>
<tr>
<td>79</td>
<td>House et al. (2004)</td>
<td>15.7</td>
</tr>
<tr>
<td>79</td>
<td>Shenkar (2001)</td>
<td>15.7</td>
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<tr>
<td>49</td>
<td>Johanson and Vahlne (1977)</td>
<td>9.8</td>
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<tr>
<td>47</td>
<td>Morosini, Shane and Singh (1998)</td>
<td>9.4</td>
</tr>
<tr>
<td>45</td>
<td>Ronen and Shenkar (1985)</td>
<td>8.9</td>
</tr>
<tr>
<td>45</td>
<td>Hofstede and Hofstede (1991)</td>
<td>8.9</td>
</tr>
<tr>
<td>42</td>
<td>Barkema, Bell and Pening (1996)</td>
<td>8.4</td>
</tr>
<tr>
<td>37</td>
<td>Gatignon and Anderson (1988)</td>
<td>7.4</td>
</tr>
</tbody>
</table>

Figure 3. Number of citations in study conducted by Pinto et al. (2014)

Considering the following arguments, I have selected Hofstede’s cultural framework as the framework of choice for this thesis. The reasons for choosing Hofstede’s framework are the scientific significance, easy usability and empirical evidence of it being a significant component of nearly all further cultural studies (Yeganeh, 2011).

**Aim of the study.**

The aim of this study is to examine how cultural factors determine the strategy selection of foreign direct investments in China. China has been chosen as the focus of this study, as during the past years China has become the fastest growing country in the world and a market for foreign investment.

The paper examines how cultural distance and cultural dimensions affect the modes of foreign direct investments in China. Does cultural distance or cultural dimensions affect foreign direct investment modes in China?

Since the most deployed modes of foreign direct investments to China are joint ventures and wholly owned subsidiaries (Wei, Liu, Liu, 2004), they will be the main focus of foreign direct investments in this study.

Lall and Siddharthan (1982) have argued that companies from a country with large markets are more likely to engage in international business in order to exploit their competitive advantage. By comparing Figures 2 and 4, we can note three European countries as large global players by their market size and investments to China: France, Germany and the United Kingdom. As stated by Hofstede (2001), the most profound and deepest cultural layer is the country specific culture. Therefore, if we want to analyse and compare the cultural factors in foreign direct investments, a
proper analysis must be conducted by utilizing country specific dimensions. (Hofstede, 2001, 39-70)

The countries mentioned above will be shown later on in this thesis to form the base for an analysis of cultural factors and FDI mode selection. This example will be conducted based on the results of a systematic literature review and will improve the reader’s comprehensive understanding of the subject and how exactly Hofstede’s cultural dimensions can be utilized in the realm of foreign direct investments. This example will be presented in the final chapter of the thesis. To further improve the relevance of this study and to have a higher deviation of cultural and geographic distance (Yeganeh, 2011), the results will be further narrowed to a comparison of France, the United Kingdom and China, and their cultural factors in foreign direct investment mode selection. The reason for selecting these countries is because these countries can be determined to be relevant and active subjects for study.

![Figure 4. January – July 2015 top ten countries to invest in China, calculated in billions of US Dollars (MOFCOM, 2015)](image-url)
Methods of literature search and review

This thesis has been created by the principles of a systematic literature review. The advantage of this systematic literature review is that it attempts to remove or minimize bias created unconsciously by the author, and at the same time provide a stronger and more coherent set of findings (Fiegen, 2010). Therefore, all articles that were searched for this study were searched using the following one single BOOLEAN phrase:

China AND ("foreign direct investment" OR FDI) AND ("market entry" OR international") AND ("joint venture" OR subsidiar*) AND ab(Hofstede)

This BOOLEAN phrase produced a total of 31 results from the ProQuest electronic database. This was further cropped by source type and language. The filters used as by the previous determinants were the publications source type to be a scholarly journal and the language to be English. These filtrations were done in order to be certain of the materials scientific reliability and the actual applicability of the material. Since these publications ranged between 1997 and 2014, it was not necessary to apply a date-based filter of the material because this would not have been a relevant and viable action.

After the previously mentioned filtrations, the publications from the database were assessed for their relevance with the thesis by using such criteria as the geological relevance of the publication and the discussion of a subject or theme relevant with the thesis. This resulted with 12 relevant publications.

The BOOLEAN phrase was also run through the EBSCO database for comparison in an attempt to find more relevant material for the thesis. The BOOLEAN produced 8 publications from the EBSCO database. Since none of the publications retrieved from the EBSCO database discussed a subject relevant with the thesis, they were left out from the study.

We must note that even though the selected publications to this systematic literature review are of high quality and deploy a large spectrum of research methods, as Wolf (1986) has noted, a meta-analysis of the material loses its relevance when the number of available publications is low (Wolf, 1986, 54). Therefore, the analysis of the material will be attempted rather by content-based analysis strategy. This means that the publications have been studied by the ideology to find meaningful and important information concerning the subject of study (Bryman & Bell, 2011, 297-315).
Presentation of findings

The 12 selected publications to this literature review attempt to determine how cultural distance in general or cultural dimension determined by Hofstede affect the foreign direct investment strategy between two countries. Some studies are without a home country–host country relationship, and some include a study of a certain country’s foreign direct investments. Writers for this literature review originated from countries such as the USA, China, the Netherlands, Brazil, the Republic of Korea and Singapore. American scholars wrote a total of 7 publications, making the USA the biggest contributor of studies.

The standpoint for the studies was either a universal implication of theories, or a systematic analysis of China being a target for foreign direct investments. The publications are fairly distributed since universal studies accumulate 50% of all studies and publications targeted to China accumulate 50%; therefore providing both theoretical and practical depth to this thesis.

Research methods
Several methods of research were noted in the literature review. An interesting finding was that several papers used a combination of different methods; making a mixed method of study the most common single method of study within the publications. This method was used in a total of 50% of all studies.

Other papers include research methods such as mathematic modelling, surveys and literature reviews. All mathematic studies were fully or partially based on Hofstede’s theories and cultural dimensions.

Content analysis
The 12 papers were analysed systematically for findings relevant to this study. In the analysis of the material, two significant interlinking findings were discovered: 1) Cultural distance and its influence on FDI strategy and 2) Cultural dimensions and their influence on FDI strategy.

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Year</th>
<th>Research aim/objectives</th>
<th>Method</th>
<th>Main findings</th>
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</table>

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Consortium for Undergraduate International Business
<table>
<thead>
<tr>
<th>Author 1</th>
<th>Year</th>
<th>Description</th>
<th>Method</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barkema &amp; Vermeulen</td>
<td>1997</td>
<td>To determine which determinants in national country are most influential to international joint ventures.</td>
<td>Data specific analysis of internationalization of 25 large Dutch firms.</td>
<td>Significant findings on the effects of Hofstede’s cultural dimensions. Large differences in uncertainty avoidance and long term orientation seem to diminish the ability for an FDI to survive. High differences in uncertainty avoidance and long term orientation promote full ownership, while high differences in Hofstede’s other dimensions seem to promote joint ventures.</td>
</tr>
<tr>
<td>Ross D.N.</td>
<td>1999</td>
<td>To determine how to create the best possible cultural fit in an intercultural organization involving China and the USA.</td>
<td>A literature review of Porter’s and Hofstede’s theories.</td>
<td>High difference between different cultural dimensions means that more work and resources is needed in order to create a sustainable joint venture.</td>
</tr>
<tr>
<td>Fan &amp; Yigang</td>
<td>2004</td>
<td>An attempt to emphasize the cultural differences of China and the USA.</td>
<td>A comparison study of China and the USA, by applying Hofstede’s cultural dimensions.</td>
<td>Findings suggest that high masculinity and high individualism promote wholly owned subsidiaries.</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Year</td>
<td>Objective</td>
<td>Methodology</td>
<td>Findings/Outcomes</td>
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<tr>
<td>Kirkman et al.</td>
<td>2006</td>
<td>To determine the effects of culture and cultural distance.</td>
<td>A non-location specific literature review.</td>
<td>Inconsistent findings concerning cultural distance and FDI strategy, even a suggestion that cultural distance as a whole might not be a determinant in FDI. A high variability between home and host countries and FDI modes is demonstrated.</td>
</tr>
<tr>
<td>Koch &amp; Koch</td>
<td>2007</td>
<td>To distinguish whether the Chinese culture has differences between regions, concerning the aspect of collectivism. Also an attempt to demonstrate how collectivism affects ability to cooperate.</td>
<td>A mixed study combining a cultural theories and experiment conducted with 100 local Chinese people, 52 from Beijing and 48 from Wuhan.</td>
<td>The findings point out that the more developed parts of China are significantly more individualistic. Also a significant finding that in China a higher level of collectivism lowers the ability for cooperation, meaning that joint ventures can have a lower survival rate.</td>
</tr>
<tr>
<td>Yuehua et al.</td>
<td>2009</td>
<td>To determine how cultural distance affects transnational foreign direct investments in countries like China.</td>
<td>A mixed analysis a significant and relevant theories and mathematic modelling of data concerning the study.</td>
<td>Findings suggest that Chinese companies are most likely to choose cooperative modes with companies from countries holding a similar national culture as China, when comparing country risk and cultural distance. Study notes that there are several inconsistencies within the analysis of cultural distance.</td>
</tr>
<tr>
<td>Authors</td>
<td>Year</td>
<td>Title</td>
<td>Methodology</td>
<td>Findings/Conclusions</td>
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<tr>
<td>Yeganeh, Hamid</td>
<td>2011</td>
<td>An attempt to conceptualize the cultural distance index.</td>
<td>Firstly a discussion of different cultural frameworks and cultural distance implications. Secondly a creation of generic cultural distance index based on the selected cultural frameworks.</td>
<td>Determines that cultural differences significantly influence market entry. Findings determine how cultural distance index's have a high variability in results. Study includes a creation of cultural distance, but does not involve the analysis of how it affects FDI strategy.</td>
</tr>
<tr>
<td>Kwon, J-V.</td>
<td>2012</td>
<td>A study of the internal cultural structure of China and an attempt to find cultural differences within the nation state.</td>
<td>A literature review conducted on the contextual basis of Hofstede's work.</td>
<td>Findings suggest that in China there are remarkable differences in individualism, uncertainty avoidance and long-term orientation depending on the geographic location. Findings also suggest that multinational enterprises must align their strategy with countries cultural values.</td>
</tr>
<tr>
<td>Tang, L.</td>
<td>2012</td>
<td>To analyse whether significant differences in Hofstede’s dimension affect FDI activities.</td>
<td>A combination of mathematic analysing of FDI and hypothetical analysis of the results with Hofstede’s theories.</td>
<td>The findings suggest that differences in individualism promote FDI and the differences in power distance diminish FDI. Findings also suggest that cultural distance can’t be described as a single entity.</td>
</tr>
<tr>
<td>Ferreira et al.</td>
<td>2014</td>
<td>To determine how the most notable cultural theories have been used within international business.</td>
<td>A literature review of the most significant cultural theories.</td>
<td>High cultural distance analysed with transaction costs seems to accumulate to a higher level of control in foreign direct investments.</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Year</td>
<td>Objective</td>
<td>Methodology</td>
<td>Findings</td>
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<tr>
<td>Garcia et al.</td>
<td>2014</td>
<td>To analyse similar and differing cross-cultural values, ethics and cultural dimensions between the USA and China</td>
<td>A wide mathematic modelling of data collected from a mixed variety of studies and cultural theories.</td>
<td>Findings suggest that cultural dimensions between countries must be as aligned as possible to make joint ventures successful. Inconsistencies in results concerning cultural distance as a whole.</td>
</tr>
<tr>
<td>Pinto et al.</td>
<td>2014</td>
<td>To analyse how national culture has affected the study of international business</td>
<td>Mathematic and statistical study of 502 articles published in the top seven international business journals</td>
<td>The scientific importance of Hofstede’s studies and the significance of culture in foreign entry modes. Suggest that high cultural distance accompanied with factors of psychic distance promotes shared market entries and joint ventures help diminish cultural differences while also moderating transaction costs.</td>
</tr>
</tbody>
</table>
Results

Cultural distance in foreign direct investment strategy
A total of six publications within the literature review discuss the factor of cultural distance as a single entity in foreign direct investment strategy. The most common simplification in the studies of what cultural distance means as a whole was the explanation created by Kogut & Singh (1988): they describe cultural distance to be the amount of difference between two countries when comparing their sociological aspects.

A notable deviation within the determinations of how cultural distance affects FDI strategy was noted. Only studies conducted by Ferreira et al. (2014) and Pinto et al. (2014) suggested that cultural distance can be used as a determinant for FDI strategy. A notable factor in these studies suggesting that cultural distance can be used as a determinant in FDI strategy was that they point to the opposite directions. Pinto et al. (2014) suggests that when examining cultural distance by the factors of psychic distance, in a high cultural distance situation, a joint venture functions better in order to manage a high psychic distance. On the other hand, Ferreira et al. (2014) suggests that when analysing cultural distance with factors of transaction costs, a wholly owned subsidiary seems to function better in a high cultural distance scenario in order to minimize transaction costs.

A study conducted by Yuehua et al. (2009) points out that there are several inconsistencies and differing results when considering cultural distance in FDI strategy. The publication, however, dictates that Chinese MNC’s tend to favour joint ventures only if the culture of the counterpart is very similar to theirs.

Studies conducted by Tang (2012) and Kirkman et al. (2006) go as far to suggest that cultural distance as a singularity can not be used as a determinant in FDI strategy. The main reason for this is the idea of bipolarity in cultural distance (e.g., the cultural distance measured from Finland to China, is different if measured from China to Finland (Tang, 2012)). This implies that the measurement of cultural distance is asymmetrical and highly dependent on the host country of study (Yeganeh, 2011).

Another underlying issue in the differing results concerning cultural distance in FDI strategy is the heavy differences in the selected variables in the mathematic modeling of distance. Studies involving cultural distance used such elements as transaction costs, psychic distance, geographic distance Kogut & Singh’s index, Pearson’s correlation and Schwartz’s index. All scholars even added mathematic variables according to their own views and desires. A mathematic study by Yeganeh (2011) demonstrates how there is a high amount of variability between the results of cultural distance depending on the selected model of cultural distance. As the analysis of cultural distance as a whole cannot be used to create a clear definition of how it affects foreign direct investment strategy, we must next analyse how the studies describe the influences of Hofstede’s cultural dimensions between two countries in FDI strategy.
Hofstede's cultural dimensions in foreign direct investment strategy

According to Hofstede's (1980) determined cultural dimension, the studies in the literature review are able to display how differences in certain dimensions affect the selection of foreign direct investment mode. There are a couple of different implications on how exactly each dimension functions in FDI strategy.

According to Barkema and Vermeulen (1997) large differences in uncertainty avoidance and long-term orientation seem to diminish the ability of an FDI to survive over a long period of time. This is because long-term orientation and uncertainty avoidance heavily affect how a culture perceives time and the amount of hierarchy and control; this further leads to a scenario where differences in these dimensions can accumulate to form severe cultural disputes (Barkema & Vermeulen, 1997; Hofstede, 2001, 319-358). Thus, it is suggested that in an environment with large differences in uncertainty avoidance and long-term orientation, a wholly owned subsidiary is the preferred mode for entry. The study also implies that differences in other dimensions have a high probability of success functioning as joint ventures; however, it also states that other dimensions don’t significantly affect FDI strategy. (Barkema & Vermeulen, 1997).

Fan and Yigang (2004) demonstrate how large differences in masculinity and individualism can also have a significant effect on FDI strategy. They determined that differences in these dimensions benefit from wholly owned subsidiaries, as masculinity determines the amount of aggressive behaviour and individualism and is also a notable driver in the society’s inclination to cooperation and group work. (Fan & Yigang, 2004; Hofstede, 2001, 73-160).

Some studies have a larger view and they attempt to describe the overall success and ability to cooperate if differences in cultural dimensions are large. Studies conducted by Yuehua et al. (2009) and Garcia et al. (2014), both suggest that the cultural dimensions are required to be as similar as possible. Yuehua et al. (2009) argue that similarity in cultural dimensions is required in order to create a successful joint venture, meaning that large cultural dimensions do not support joint ventures. Garcia et al. (2014) on the other hand states that large differences in cultural dimensions can lead to the diminishment and short life of an FDI, whereas cultural similarities enhance FDI success. A similar result was determined from the studies by Ross, (1999) who points out that large differences in cultural dimensions can create higher transaction costs and a larger workload.

Differences within the Chinese national culture

Some scholars point out that the Chinese cultural environment cannot necessarily be analysed as a coherent cultural entity. It seems that there are large differences between the highly developed parts of Eastern China and the more rural parts of Central China. These regions display a significant difference in individualism: the developed areas displaying more individualism whereas the rural parts have a high amount of collectivistic cultural elements. (Koch & Koch, 2007)

A study conducted by Kwon (2012) goes as far as stating that the developed parts of China as compared to the rural areas of China display a significant amount of variability in all cultural dimensions. According to Kwon (2012) this is heavily affected due
to the economic and political development of China, alongside the sheer size of the country.

A study conducted by Tang (2012) however states that a high difference in individualism is not necessarily a negative matter as it can actually increase the amount of FDI between the counterparts. In addition, Tang (2012) suggests that differences in power distance can be a factor that significantly hinders FDI between two countries. This is because power distance describes the relationship between the leaders and workers; consequently, this possibly leads to a clash in equity modes of internationalization. (Tang, 2012; Hofstede, 2001, 39-70)
Conclusions

Conclusions based on the results
A notable collective finding in the literature review seems to be that large differences between two countries measured by Hofstede’s cultural dimensions promote wholly owned subsidiaries. Statistically joint ventures appear to be the most beneficial option only in a scenario where distance between cultural dimensions is fairly low.

This study is relevant because of the findings concerning the ideas of ownership level in foreign direct investments, as well as the perceived cultural distance between these countries. Traditionally in the realm of international business, it is suggested that in a high cultural distance context, joint ventures are a better option in order to manage the cultural gap between any two countries (Pinto et al., 2014). However, as noted in this study, this paradigm may not be as universal and generally applicable as often stated. This thesis notes that there is possibly a severe research gap in how cultural tools should be used in the context of foreign direct investments.

As displayed in the results, the blending of different aspects within the cultural distance index has led to inconsistencies between studies. The apparent determination of scholars to produce a generally applicable formula for cultural distance, while including other factors (e.g., transaction costs) has led to a large deviation between the results of different studies. This raises the question if different factors in foreign direct investments should be analysed as individual variables or as a general singularity.

Visible in the results is also that some scholars suggest that a singular cultural distance indicator is not sufficient enough to determine how a company should align its operations and strategy with the target countries culture. This also speaks for the argument that a single cultural distance index does not necessarily produce a fully trustworthy result.
Example based on results

Figure 5. China ‘s cultural dimensions compared with France’s and United Kingdom’s cultural dimensions. (The Hofstede Centre, 2015)

As stated in chapter 1, an example derived from the results will be presented in this chapter. Figure 5 demonstrates the United Kingdom’s and France’s cultural dimensions compared to China’s cultural dimensions.

From Figure 5, we have the opportunity to observe how exactly each cultural dimension is represented in the selected countries. As stated in the results, large differences in uncertainty avoidance, long-term orientation, and masculinity and individualism are the most influential factors of Hofstede’s theory in comparing the selection of FDI strategy.

From Figure 5, it is possible to note that in masculinity and uncertainty avoidance, China and the United Kingdom are fairly close to each other, whereas France is notably more apart in these dimensions. In long-term orientation, France is slightly nearer to China than the United Kingdom, while still being slightly apart. In terms of power distance, the United Kingdom is notably apart from China. In contrast, France is slightly closer to China. Still, as stated before, this dimension does not dictate the
selection of FDI mode as much. Power distance does, however, have the ability to hinder FDI activities; thus meaning that it isn’t a factor that can be neglected.

Individualism is a curious factor, as it is stated that large differences in it lead to an inclination to wholly owned subsidiaries (Fan & Yigang, 2004). On the other hand, it is stated that large differences in individualism can possibly lead to a higher amount of FDI activities in total (Tang, 2012). Therefore, we may hypothetically state that the differences in individualism may not be a hindering factor in FDI activities when comparing the cultures of China, France and the United Kingdom. Still, it does promote FDI’s strategy towards wholly owned subsidiaries. To gain advantage of the large differences in individualism, the results encourage the FDI to target the Eastern coast of China.

According to the observations and results, it is possible to claim that the United Kingdom has a slightly higher possibility to deploy joint ventures as a mode of FDI to China, whereas France could possibly benefit from a wholly owned subsidiary dominated FDI mode to China. However, as the results dictate that joint ventures require a high cultural similarity, companies from the United Kingdom may also benefit from using wholly owned subsidiaries as a choice of FDI to China. According to the results, it is also important to study the specific location of the targeted FDI since there can be regional differences in the Chinese cultural dimensions, especially in individualism.

**Limitations**

This thesis includes several limitations that must be taken into consideration when studying the results. We must note that this study was created with a cultural framework in mind, and the possible variables were analysed through Hofstede’s cultural dimensions. The study hasn’t included such factors as costs, sector, politics, institutions and the overall strategy of companies and countries foreign direct investments.

Also, another factor that must be noted is that this analysis is based on a single country; thus, the observations made in this study might not correlate to other countries. Another significant matter is the undeniable limitations of the research material. Due to the low amount of sources to the literature review, a larger research effort with a wider scope should be conducted to determine the correlation of this study’s results to other existing literature.

Even though Hofstede (2001, 1-36) demonstrates that the countries initial culture is fairly robust over time, we must take note that global markets are influenced by several forces that make the nature of it remarkably dynamic (Shone, 2001, 1-25). This leads to the distinct difference between a very stable cultural structure and a constantly changing business environment. Meaning that the results derived from this study can also be influenced by the overall market situation of the publications time period.

**Suggestions for further study**

As demonstrated by this thesis, large differences in cultural dimensions seem to
promote wholly owned subsidiaries; consequently, a suggestion for further studies would be to examine if the results of this study also bring insight to the FDI strategy in other countries. This study has also highlighted a significant research gap concerning foreign direct investment strategy aligned with cultural distance and cultural dimensions.

Future research should address this mentioned research gap as in depth as possible. Another factor that must be analysed is how different variable additions to the cultural distance index affect the applicability of it. This study demonstrated that the blending of different factors, variables, and theories could possibly lead to severe inconsistencies within a certain concept. An extremely significant factor would be to determine if it is possible to provide a universal and comprehensive measure for FDI's and cultural distance.

As this study targeted a single country, the next step would be to determine if the results correlate to other countries. For example, it could be demonstrated that the results of this study could be implicated to other Asian countries and further on to possibly include both Europe and America. Lastly, the aspect of bipolarity between two countries in cultural distance offers significant research possibilities and opportunities of study.
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